ANHEUSER-BUSCH
COMPANIES, INC.

ANNUAL REPORT 1986

ANHEUSER-BUSCH COMPANIES, INC.

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In 1864, when Adolphus Busch went to work for his father-in-law's South St. Louis brewery, he could never have envisioned that 122 years later the tiny company would be an international corporation that not only brews the world's finest-quality, best-selling beers, but has interests in can manufacturing, baking, family entertainment, snack foods and more than a dozen other enterprises ■

But Adolphus Busch did have dreams and ideas that for his time were revolutionary. And his visionary ability has been shared by successive generations of the Busch family. Under their leadership, the company has continued to grow and prosper ■

It hasn't always been easy. There have been hard times. Prohibition. Two world wars. The Great Depression. But although hundreds of other breweries succumbed to difficult times and closed their doors, Anheuser-Busch survived and grew. During these periods, the company devised innovative ways to use its resources, its people and its expertise. It developed "survival" businesses, designed to keep the company operating when its primary product—beer—could not be made. The company produced baker's yeast, table syrup, truck bodies, refrigerated cabinets, glider fuselages, soft drinks, armored cars and dozens of other products ■

And while Anheuser-Busch was making beer or other products, it was also making history. Its pioneering efforts produced many "firsts." It was the first American brewer to pasteurize its beers. The first to use refrigerated railcars. The first to engage extensively in bottling its beer products. It installed the first diesel engine in America. It was the first company in St. Louis to replace horse-drawn delivery wagons with trucks. It was the first brewer to sponsor a network TV show ■

Today Anheuser-Busch is the preeminent brewer in the world, America's leading producer of compressed baker's yeast and the operator of one of the country's leading baking companies ■

Adolphus Busch would hardly recognize his company today. But he would be pleased to know that beer is still its top priority. And although he would find many things changed, some things have remained the same—the great taste of Budweiser and the company's commitment to quality and innovation ■

Adolphus would also recognize the spirit of today's Anheuser-Busch. The spirit to try new things, to grow, to explore, but never to lose sight of the fundamental ingredient in success—quality ■

That hasn't changed ■

It never will ■

Other Subsidiary Operations

During the past year, we continued a strong capital investment program to support internal growth and acquisitions.

After several years of aggressive investment spending on new product development and cost reduction programs, we are encouraged to again report substantially higher profitability for Campbell Taggart, our diversified baking and food products subsidiary. During 1987, this subsidiary will continue to benefit from reformulated products; the expansion of higher-margin bakery, refrigerated and frozen food products; major contributions from international operations; and the distribution of Eagle Snacks in most of Campbell Taggart's markets.

A new Eagle Snacks plant is being constructed in Visalia, California, to provide capacity in early 1988 for a rollout to western markets. When combined with the new Fayetteville, Tennessee, plant which began operation in late 1986, the subsidiary will have self-manufacturing capability to support national distribution of its full line of snack products.

Metal Container Corporation and Busch Agricultural Resources, our two vertically integrated businesses, took major steps during 1986 to expand their support for our beer operations. These subsidiaries also entered new business areas that build upon their traditional strengths.

Metal Container won a competitive bid to supply cans for our new Fort Collins brewery and is now building a plant in nearby Windsor, Colorado. Metal Container also took steps during 1986 to strengthen its position as a supplier to the soft drink industry by acquiring a can and lid plant in Carson, California, and by opening a lid manufacturing facility in Oklahoma City.

Busch Agricultural Resources acquired Pacific International Rice Mills, Inc. (PIRMI) in California to provide an additional company-owned source of high-quality rice for our breweries. The PIRMI facility allows Busch Agricultural to sell 10 brand names of rice in the consumer market.

Financial Performance

The accomplishments of the company's beer and other subsidiary operations resulted in record sales and earnings during 1986. Gross sales were $8.40 billion, a 9.3% increase over 1985. Net income was $518.0 million, for a gain of $74.3 million over the previous year. The reported net income for 1986 reflects the adoption of a new accounting method, as prescribed by Financial Accounting Standard No. 87, for certain of the company's pension plans. The effect of this accounting change was to increase 1986 pre-tax income by $45 million, net income by $23 million and earnings per share by $.08. The company expects to report reduced pension expense in future years, largely due to the overfunded status of these plans.

Earnings per share increased by 19.0% to $1.69 after adjusting for the two-for-one stock split in September. Since 1980, earnings per share have grown at an average annual compound rate of more than 17%.

The Tax Reform Act of 1986, which eliminated the investment tax credit retroactive to January 1 of last year, did not have a significant negative impact on reported results. Beginning in 1987, the lower corporate tax rate will more than offset the loss of the investment tax credit and will have a positive effect on 1987 earnings. The Act will have an even more favorable effect in 1988 and thereafter when the lower corporate tax rates are fully phased in.

"Since 1980, earnings per share have grown at an average annual compound rate of more than 17%. . . The company's return on shareholders equity reached an all-time high of 20.5% in 1986."

The company's return on shareholders equity reached an all-time high of 20.5% in 1986, compared to 17.8% in 1980. This increase results primarily from a strengthened operating performance and the stock repurchase program.

In addition to approval of the two-for-one stock split, the Board of Directors approved several measures

"Last fall, Anheuser-Busch listed its shares on the stock exchanges of London, Paris and Frankfurt and on the major exchanges in Switzerland."

that will increase the distribution and value of the company's common stock. Last fall, Anheuser-Busch listed its shares on the stock exchanges of London, Paris and Frankfurt and on the major exchanges in Switzerland. The European listing program was undertaken in recognition of the company's expanding international presence, overseas financing opportunities and the potential to broaden the ownership base of Anheuser-Busch shares. Additionally, the value of our common stock was increased by raising the quarterly dividend 20% from $.10 to $.12. The full year dividend for 1986 was $.44, an increase of 20% over the $.36-2/3 paid in 1985.

While cash flow remained strong in 1986, the company assumed additional debt to fund a very aggressive capital investment program of $777 million, in addition to making acquisitions which amount to $159 million. These expenditures build shareholder value by expanding our beer business and developing new business opportunities and alternative uses for existing products such as soft drink cans.

The company required new debt financing of $260 million in 1986 to provide for capital investments, acquisitions and $259 million for the stock repurchase plan. This additional borrowing increased the debt-to-total-capitalization ratio to 30.9%. This moderate level of debt is above the 25.9% historical low recorded last year but significantly below the 43.4% level reported in 1980. An integral part of our financial strategy is a judicious use of debt to support future growth.

Our capital expenditures are expected to remain high in 1987 while the Fort Collins brewery is being completed. Thereafter, we expect cash flow to benefit from continued expansion of operations, lower capital require-


ANHEUSER-BUSCH COMPANIES

In 1895, Anheuser-Busch began to produce Malt-Nutrine, the company's first product in the pharmaceutical industry. It became a standard tonic for nursing mothers and was prescribed for convalescents, sickly children, the anemic and the aged. Malt-Nutrine could be found on the shelves of most drugstores in America.

Anheuser-Busch was also interested in the medicinal properties of yeast. By the 1920s, the company's dried yeast was used by food processors to increase nutritive value, and it became a standard ingredient in such products as baby cereals and the Army's K-ration crackers. It was also exported to countries whose agricultural production was not sufficient to meet the population's nutritional needs.

In addition, at one time in its history Anheuser-Busch was the world's largest single source of natural B complex vitamins.

Anheuser-Busch's interest in the pharmaceutical industry continues today under an agreement with Interferon Sciences, Inc., a biotechnology firm in New Jersey. Interferon Sciences has been developing and clinically testing both natural and recombinant forms of interferon, an anti-viral agent found in the human body. The firm genetically engineers the yeast cell in the recombinant form to produce interferon, and Anheuser-Busch, through the use of its yeast fermentation capabilities, grows yeast in large-scale quantities for purification and product formulation ■

DIVERSIFICATION

Through the years Anheuser-Busch has made many diverse products and has been involved in a wide variety of businesses. In addition to its staple product—beer—the company has produced waffle syrup, animal feed, baking powder, soft drinks, diesel engines, glider fuselages, parts for military field kitchens and armored car bodies, to name a few. It has had interests in coal mines, glass plants, banks, hotels, restaurants, copper mines and oil wells.

Although beer has always been—and will continue to be—Anheuser-Busch's primary product, today, as in the past, the company is committed to well-planned and managed growth. Its long-term diversification strategies reflect this commitment. These strategies include vertical integration, internal development of new business areas and acquisitions.

The company's vertical integration strategy has resulted in increased knowledge of the economics of those businesses, assured quantity and quality of supply, and control of both packaging and raw materials costs.

The company continues to nurture internally developed businesses such as Anheuser-Busch International, Inc.; Eagle Snacks, Inc.; and the Anheuser-Busch Beverage Group.

Eagle Snacks added capacity in 1986 through both plant expansions and new plant construction. New products have been successfully test marketed, and distribution of the company's Honey Roast nut line has been expanded to international markets.

Anheuser-Busch International now oversees Budweiser licensed-brewing operations in six countries. In addition, agreements were signed in 1986 with Guinness Ireland, Ltd. and United Breweries Ltd. in Denmark. Brewing operations will begin in these two countries in early 1987. Budweiser and various other Anheuser-Busch brands continue to be brewed and marketed in Canada, the United Kingdom, Japan and Israel.

The Anheuser-Busch Beverage Group had a busy year. It introduced Dewey Stevens Light Wine Cooler, acquired the LaMont Winery in California, expanded distribution of its Master Cellars wines and acquired the Showerings bottling and warehouse facility in Maryland. In early 1987, it introduced Zeltzer Seltzer, a natural soda.

In addition, in 1986 Anheuser-Busch, Inc. acquired Ballygowan Spring Water Company of Ireland.

Other diversification projects draw on the research and development expertise of Anheuser-Busch Companies' yeast fermentation technology. One example of using this technology is the research and development agreement established with Interferon Sciences, Inc., which extends through 1988.

Interferon Sciences has already filed for FDA approval of its first product, natural interferon, and plans to file in 1987 for approval of its second product, a recombinant interferon. Anheuser-Busch has production rights and will receive royalties on all recombinant products sold by Interferon Sciences. It also has warrants for the purchase of Interferon Sciences common stock.

In 1986, the company also made

acquisitions that expanded its business scope in baking, container production and agricultural operations. These acquisitions are described more fully in the discussion of individual subsidiaries later in this report.

Long-range plans call for continued diversification efforts that are consistent with the company's growth strategy.

CORPORATE CITIZENSHIP

The date: April 17, 1906. The place: San Francisco. The event: One of the most devastating earthquakes in U.S. history.

Adolphus Busch was in San Francisco on that fateful day, but he was among the fortunate who were not injured. Perhaps, like many of the survivors, his first impulse was to flee the city and escape the nightmare.

But he didn't. As soon as he found a telegraph office that was operating, he sent a cable back to Anheuser-Busch in St. Louis requesting that $100,000 be forwarded immediately to San Francisco for public relief work.

Contributions like these are as much a part of Anheuser-Busch history as its many brewing achievements. Generosity in times of need is part of its legacy. For example, during World War II the company gave up its flourishing Budweiser business on the Pacific coast by voluntarily withdrawing from the market so that more freight cars would be available to the government to ship essentials of war to embarkation points. Anheuser-Busch was the only brewer to make such a sacrifice.

Today Anheuser-Busch Companies continues the tradition of contributing generously to worthy causes. During 1986, the company and its charitable foundations contributed approximately $16 million to non-profit organizations, including the United Way, social service agencies, arts and cultural groups, health care institutions, and colleges and universities.

In the cities where it operates breweries and wholesale operations (company-owned distributorships), the company's Operation Brightside—an innovative cleanup and beautification program—has the special benefit of providing summer jobs for local youth.

During 1986, Anheuser-Busch and its wholesalers raised $3.4 million for the annual Jerry Lewis Labor Day Telethon

Other charitable activities include: an employee matching gift program for educational institutions; extensive support of such organizations as the USO, YMCA, YWCA and Boy Scouts of America; the Anheuser-Busch/Urban League Community Scholarship Program; the Inroads training program for minority college students; and leadership training programs such as the Coro Foundation, the Cuban National Planning Council, the Mexican American Legal Defense and Education Fund (MALDEF) and the Latino Institute in Chicago.

As the founder and national sponsor of the Lou Rawls Parade of Stars telethon, Anheuser-Busch, Inc., through its Budweiser brand, has helped the United Negro College Fund raise more than $40 million to date in gifts and pledges.

In 1986 Anheuser-Busch Companies also became the largest corporate supporter of the National Hispanic Scholarship Fund, with a commitment of $1 million. The company is actively involved in areas of key concern to the Hispanic community, including higher education, leadership and economic development, health and culture. Among the Hispanic organizations which the company supports are the U.S. Hispanic Chamber of Commerce, National Conference of Puerto Rican Women, Cuban National Planning Council and the Mexican Museum.

Anheuser-Busch, Inc. is also a national sponsor of the Muscular Dystrophy Association, and in 1986 the company and its wholesalers raised $3.4 million for the annual Jerry Lewis Labor Day Telethon.

In 1986, Anheuser-Busch Companies continued its minority banking program and its Partners in Economic Progress program for minority suppliers and contractors.

INDUSTRY AND GOVERNMENT AFFAIRS

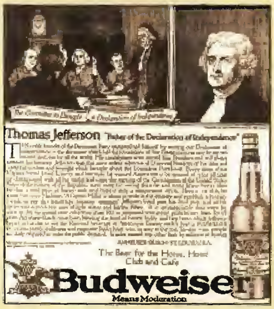
Anheuser-Busch has always taken an active interest in political issues that affect the company. As early as 1889, Adolphus Busch was warning his fellow brewers about the threat of Prohibition. Among the proposals he advocated to counteract this threat were hiring professional lobbyists; supporting political candidates favorable to the brewers' causes; and eliminating improper aspects of the saloon business in order to present a better public image of alcoholic beverages.

Adolphus was not able to convince other brewers that Prohibition was a true threat. So under his leadership, Anheuser-Busch took steps on its own to address the issue. It began to advertise beer as a beverage of moderation. It developed and marketed American Hop Ale, a reduced-alcohol beverage. It opened a restaurant in St. Louis, where only beer and fine wines were served, in an effort to show beer in a refined and "proper" setting.

But despite Anheuser-Busch's efforts, 30 years after Adolphus first predicted it, national Prohibition went into effect.

Today, in a climate of greater industry unity, Anheuser-Busch Companies continues to take a leadership role in addressing issues that can have a major impact on the company and its shareholders. The company's Industry and Government Affairs Department monitors legislative and regulatory developments at the international, national, state and local levels.

To this end, Anheuser-Busch employees, wholesalers and shareholders are kept abreast of key issues, and are asked to become involved through personal contact with their elected representatives. Many employees also participate in legislative outreach efforts by voluntarily contributing to the Anheuser-Busch Companies Political Action Committee.



Alcohol awareness is a major issue today, and many of those involved in the production of alcoholic beverages are joining forces with consumer groups and government agencies to spread the message of responsible consumption.

But advocating moderation is nothing new for Anheuser-Busch. The company has always been deeply concerned about the proper use of its beer products. Adolphus Busch's position, recorded in both personal and business correspondence, was that beer was a temperance drink.

As early as 1889 Anheuser-Busch used the "true temperance beverage" theme in its printed catalogues. In 1914, the phrase "Budweiser means moderation" was introduced as part of an ad campaign; and in 1915, in a campaign called "Framers of the Constitution," the phrase was again used in ads that showed that many of America's founding fathers were advocates of beer drinking or were home brewers. In 1917, a "Moderation Series" was begun, in which various consumer products were shown to be good when used in moderation but potentially dangerous when used in excess.

Today Anheuser-Busch continues to send the moderation message. It is involved in a variety of educational campaigns sponsored by organizations such as Students Against Driving Drunk, which are designed to teach responsibility and moderation. The company has also developed its own extensive alcohol awareness program, Operation ALERT, and has contributed millions of dollars to alcohol-related research.

Industry Cooperation On Legislative Issues

The alcoholic beverage industry faces serious legislative and regulatory challenges. Punitive taxes, advertising bans, new restrictions on hours and places of sale, warning labels, retailer liability laws and mandatory deposits are but a few of the proposals which threaten our industry.

The brewing industry's ability to undertake coordinated action on political issues of common interest was strengthened during 1986 by the creation of The Beer Institute. Unlike the United States Brewers Association, which The Beer Institute succeeds, all major brewers are members and active participants in the new organization.

Excise Taxes

Throughout much of 1986, the beer industry was at risk of higher federal excise taxes to help pay for tax reform and to help reduce the budget deficit. The company and industry aggressively opposed higher taxes on their products, citing the unfair and regressive nature of such taxes on America's working men and women.

A major factor in the company's successful effort to prevent a tax increase was the cooperation and support of Anheuser-Busch employees, wholesalers and shareholders. At the company's suggestion, more than 20,000 members of the Anheuser-Busch family wrote personal letters to their senators urging them to vote against higher excise taxes on beer.

The company also helped organize the Coalition Against Regressive Taxation (CART), an alliance of affected industries, labor organizations and consumer groups, and actively argued its case in Washington. August A. Busch III, the company's chairman and president, personally testified before the U.S. Senate Finance Committee against higher excise taxes, urging the defeat of a measure that would have effectively increased federal excise taxes by 54%.

Although the company was successful in opposing higher federal excise taxes during 1986, it anticipates that efforts will be required to protect the consumers of its products from discriminatory taxation in the years to come.

On the state level, 19 states considered increasing beer excise taxes in 1986, but only two actually approved such increases.

Warning Labels

The Senate Health and Human Resources Committee approved a measure to require health warning labels on all alcoholic beverages during the 1986 legislative session. Although this measure did not receive support by the full Senate, that body later approved a resolution asking the Public Health Service to study whether warning labels successfully educate the public about the dangers of alcohol abuse. This report is expected to be presented during the first session of the 100th Congress.

Anheuser-Busch opposes warning labels as an inappropriate and ineffective method to educate the public. Such labels would inevitably and unfairly stigmatize moderate beer drinking—not just abusive drinking—

while ignoring the health benefits of moderate consumption.

Although proposals to ban beer and wine advertising from radio and television were not actively considered in 1986, the company will continue to monitor the situation and defend its right to advertise, citing findings by the Federal Trade Commission and a variety of scientific researchers that there is no correlation between advertising and abuse.

Programs to Promote Responsible Drinking

Alcohol abuse and alcoholism are areas of special concern to Anheuser-Busch Companies. The company has demonstrated its ongoing commitment to combat these problems with a three-pronged effort:

• Operation ALERT. This comprehensive grass-roots program uses the skills of the company's wholesalers and their retail customers to combat abuse. Operation ALERT features retailer training; on-site intervention through the "I'm Driving" and "ALERT Cab" programs; and public education activities under the "Know When to Say When" theme. In addition, these efforts are being enhanced by the production of a major new educational film.

• Support of scientific research. The company continues its commitment to research into the causes of and viable solutions to the problems of alcoholism and alcohol abuse by supporting such organizations as the Alcoholic Beverage-Medical Research Foundation, located at Johns Hopkins University School of Medicine, and the Alcohol Research Center at UCLA.

• Employee education and assistance. Anheuser-Busch Companies is a leader in the development of employee assistance programs to aid employees and their families in addressing a variety of problems, including alcohol abuse. Through a major grant to the Association of Labor-Management Administrators and Consultants on Alcoholism, the company is encouraging other employers around the nation to adopt similar education and assistance programs.

Environmental Issues

While several states considered requiring mandatory deposits on all beverage containers, no such laws were enacted in 1986. However, California did enact a "closed-loop" recycling bill. The California system will apply a one-cent "minimum recycle value" to each type of beverage container. If designated rates of return for a particular type of container are not achieved within specified deadlines, the minimum value of that container type is increased.

Anheuser-Busch strongly supports voluntary recycling programs, as well as broad-based anti-litter laws. However, the California law is controversial and highly experimental in nature. Thus, the company will carefully monitor the law to assess whether it achieves its stated objectives in a fair and efficient way.

In 1986, Anheuser-Busch continued to demonstrate its commitment to the environment at large. The company worked with the National Park Service Scenic Riverways system; continued its support of Keep America Beautiful and the Operation Brightside community cleanup program; and sponsored an international scientific conference on litter management and recycling.

HUMAN RESOURCES

Nearly a century ago, Adolphus Busch recognized that a company is only as good as its people. And he knew he had the best. So he looked for some tangible way to show them how much he appreciated their hard work and commitment.

His solution? A "Happiness Fund," which included separate accounts for pensions, widows and orphans of workers, sick benefits, employee awards, an annual picnic and Christmas gifts.

Adolphus' philosophy is carried on today. Anheuser-Busch Companies recognizes the importance of human resources in the continued growth and success of its business operations. Not only does it lead American industry in providing fringe benefits, but it has implemented many intangible forms of developing its people.

The office of Corporate Human Resources continues to focus on human resources issues and activities, including human resource planning, which has been emphasized in recent years. Human resource planning has become an integral part of divisional and subsidiary business planning processes. It involves identifying and implementing human resource programs that are necessary to accomplish business objectives.

A written Human Resources Policy emphasizes the importance of open, two-way communication. To encourage this communication, various ongoing programs continue, including annual communication meetings at most major facilities; a "Comment" program, which allows employees to receive confidential answers from management on questions of concern; and Personnel Communications, a confidential two-way communications program.

The company also continues its quality of work life activities, and a number of company facilities have instituted various quality of work life programs.

In addition, in 1978 the company established the first in-house employee assistance program in the brewing industry, and the program continues to help employees and family members cope with personal problems.

Anheuser-Busch takes a leadership role in addressing issues that can have a major impact on the company and its shareholders.

During its first 100 years, Anheuser-Busch produced some 40 beer brands and 20 nonalcoholic beverages. Budweiser, renowned since its debut in 1876 for its superb quality and unique taste, became the company's flagship brand in the 1890s and has continued in that role to the present day. Through the years, Budweiser has won numerous international awards and medals ■

Although Budweiser's distinct taste remains the same today as when it was first brewed 110 years ago, a taste change was considered after Prohibition. Consumers, accustomed to sweet soft drinks or the sweet carbonated beverages mixed with bootleg liquors, suddenly found Budweiser too tart, and sales of the product dropped. At the company's sales convention in 1934, most members of management agreed that the time was right to change the taste of Budweiser ■

August Busch Sr. disagreed. There would be no "tinkering" with the Budweiser process or taste as long as he was president of Anheuser-Busch. He also predicted that the demand for Budweiser would eventually become greater than the supply. When that happened, he said, somebody was going to suggest that the company could increase sales and profits if Budweiser was produced faster. He refused to do that as well ■

August Sr. had his way. The taste remained unchanged. The old-world brewing methods remained unchanged. And he was right. Today Budweiser is still brewed the old-world way. And it is the best-selling beer in the world ■

Although Budweiser remains the company's premier product, Anheuser-Busch continues to produce other brands to suit different tastes, just as it always has. Today the company brews nine brands and imports two others. Currently, more than one in every three beers sold in the U.S. is an Anheuser-Busch product ■


MICHELOB
Classic DARK
BEER
MICHELOB
BEER
MICHELOB
Light
BUD
LIGHT
BEER
Budweiser
KING OF BEERS
Natural
Light
BEER
KING
COBRA
Premium Malt Liquor
Carlsberg
IMPORTED
Carlsberg
Beer
IMPORTED
IMPORTED
ELEPHANT
MALT LIQUOR

Anheuser-Busch was one of the first brewers to engage extensively in bottling its products, and in 1873 was also the first American brewer to perfect a method for pasteurizing bottled beer.

The first bottles were embossed with the words "Original Budweiser" and were packed in straw and put in wooden boxes and casks for shipping. Paper labels were not adopted until the late 1870s. At the time this photo was taken (about 1911), approximately 4,000 barrels of beer were produced each day at the St. Louis brewery.

Anheuser-Busch, Inc., the company's beer subsidiary, today ranks as the world's largest brewer. It has held the position of industry leader in the U.S. since 1957.

An average of 50,000 barrels of beer are brewed and packaged each day at Anheuser-Busch's St. Louis brewery. At the company's 10 other U.S. breweries an additional 210,000 barrels of beer are brewed and packaged daily.

Although Anheuser-Busch has diversified dramatically, beer has always been—and will always be—the foundation of the company. And although modern technology is employed to ensure product quality and consistency, Anheuser-Busch continues to use a traditional brewing process ■

ANHEUSER-BUSCH, INC.
(Beer production)

"I believe...that we are making the best beer in the world, far superior to any beer I have ever tried...Of one thing I am certain, that no one makes a better beer than we do."

Adolphus Busch wrote those words to his son in 1894. And 92 years later, sales indicate that the general public still agrees with that sentiment.

Anheuser-Busch, Inc., which began operations in 1852 as the Bavarian Brewery, ranks as the world's largest brewer and has held the position of industry leader in the U.S. since 1957. It is Anheuser-Busch Companies' principal subsidiary. More than one in three beers sold in the U.S. is an Anheuser-Busch product.

The company had an excellent year in 1986 in an improving industry. Total U.S. brewing industry sales increased 2.3%—the largest increase since 1981—while Anheuser-Busch, Inc. established another all-time industry record with sales of 72.3 million barrels, an increase of 6.3% over 1985 sales of 68.0 million barrels. Anheuser-Busch, Inc. now has a record lead of nearly 34 million barrels over its nearest competitor.

Anheuser-Busch, Inc. increased its market share in 1986 with sales volume representing approximately 38.0% of total brewing industry sales (including imports) as estimated by The Beer Institute, compared with 36.6% the previous year.

Gross sales of the company's brewing operations rose to $6.39 billion, a 7.6% increase over 1985 gross sales of $5.94 billion. Gross sales included

federal and state beer excise taxes of $723 million in 1986 compared with $683 million in 1985.

The foundation of the company's past success and future growth is based on product quality, a comprehensive marketing effort, a solid wholesaler distribution system and the most dedicated, professional employees in the industry.

While most competitors are increasingly forced to rely on price as their primary selling tool, Anheuser-Busch continues to emphasize the quality and value of each of its beer brands using a traditional, proven brewing process. At the same time, modern technology is employed to ensure the quality and consistency of the company's products.

Anheuser-Busch remains firmly committed to quality, which it believes is the fundamental, irreplaceable ingredient in its successful performance for more than 100 years.

Productivity improvement efforts are one way that the company controls costs while maintaining quality. By finding new and better ways to eliminate waste and increase efficiencies, the company is able to better use its resources and thereby increase volume at less cost. The substantial efforts of Anheuser-Busch employees during the past seven years, together with an aggressive capital investment program, have generated total expense reductions of $350 million.

New records were set in 1986 in packaging efficiencies, brewing yields and all of the other production efficiency measures. Dozens of task forces and numerous other employee groups continue to review all cost areas and future cost reduction opportunities as part of the company's ongoing productivity improvement efforts.

Products/Marketing Strategy

The hallmarks of beer as a consumer beverage are quality, taste, drinkability, convenience, moderation, value and thirst-quenching properties, all of which fit into the increasingly active, health-conscious and family-oriented life-style of the American consumer.

In terms of sheer sales volume, beer is more than 5-1/2 times larger than wine and distilled spirits combined. In fact, beer represents 13% of all beverage consumption in the U.S., including tap water. More than 80 million Americans drink beer.

The number of beer drinkers is also increasing. Additional volume is coming from such non-traditional beer-consumer groups as women. Finally, an improving economy has aided beer sales. Since 1982, the number of employed people in America has risen and total disposable income has increased.

Anheuser-Busch, Inc.'s family of 11 naturally brewed beers are positioned to take advantage of these factors.

BUDWEISER—Brewed and sold since 1876, Budweiser is the company's principal product and the largest selling beer in the world. More than half of the premium-priced beer sold in the U.S. is Budweiser.

MICHELOB—Introduced in 1896, Michelob continues to dominate the super-premium category. During 1986 it celebrated its 90th birthday, and the brand's distribution was expanded to include Puerto Rico. A new ad campaign was also introduced with a theme line of "The Night Belongs to Michelob."

BUSCH—Busch expanded in 1986 to Minnesota and northern Wisconsin. It is now available in 38 states.

BUD LIGHT—Bud Light turned in an exceptional performance in 1986, recording double-digit volume growth.

MICHELOB LIGHT—A super-premium light beer, Michelob Light continued its "You Can Have It All" life-style campaign, which tells consumers that they don't have to give up good taste to enjoy light beer. The campaign was modified in 1986.

Anheuser-Busch, Inc. promotes its beer products in many ways. In 1986 the company sponsored the World Cup Championship in Mexico City.

NATURAL LIGHT—Natural Light also experienced very strong growth in 1986. The brand continued its humorous, food-related ad campaign.

MICHELOB CLASSIC DARK—Rounding out the Michelob family is Michelob Classic Dark, the ultimate in dark beers. It is available in draft and bottles nationwide.

LA—Anheuser-Busch, Inc.'s reduced-alcohol beer continues to dominate its category. Introduced in 1984, the brand provides an alternative to consumers who choose to be more moderate in their consumption of beer and other alcoholic beverages.

KING COBRA—A naturally brewed malt liquor, King Cobra is available in selected areas of the country.

CARLSBERG—The largest-selling brand of beer in Denmark, Carlsberg is brewed by United Breweries, Ltd. and distributed in the U.S. by Anheuser-Busch. It is currently available in 26 states.

ELEPHANT MALT LIQUOR—Also brewed by United Breweries, Ltd., Elephant Malt Liquor is distributed by Anheuser-Busch in 22 states.

In addition to its regular marketing efforts, Anheuser-Busch, Inc. has also reached an agreement with the United States Olympic Committee to become a major sponsor of the U.S. Olympic Team through the 1988 Summer Olympics. The company also has sponsorship rights for the 1988 Winter Olympics in Calgary, Canada.

In other major sporting news, Anheuser-Busch's involvement in the 1986 World Cup Championship in Mexico City will be repeated in 1990 when the company will be the official beer sponsor of the world's most-watched sporting event. The 1990 championship in Rome will be preceded by Anheuser-Busch's sponsorship of major international soccer matches in Europe and Japan.

Expansion/Modernization

Anheuser-Busch continued its strong capacity expansion and modernization program in 1986. Construction of the company's 12th brewery in Fort Collins, Colo., continued on schedule and the brewery will come on stream in early 1988. The approximately five-million-barrel capacity of the Fort Collins brewery will increase total company capacity to approximately 80 million barrels per year.

Like the U.S. mail, Anheuser-Busch beers always go through. Bad weather or remote destinations were no deterrent to intrepid deliverymen 100 years ago. They used whatever conveyance was available—even sleds—to deliver beer to thirsty consumers in far-flung frontier areas.

In more "civilized" places, Anheuser-Busch presented a polished face to the world. Beer was delivered on red wagons, trimmed in green with brass fittings and pulled by matched sets of draft horses.

In 1904, Anheuser-Busch became one of the first companies in St. Louis to start replacing most of its horses with a fleet of motorized trucks—27 electric and one gas-powered. They traveled at the astounding speed of 10 miles per hour and could cover 25 miles on a single battery charge.

Remote destinations still offer a challenge to today's 950 Anheuser-Busch wholesalers and 10 company-owned wholesale operations. But modern vehicles and mostly paved roads make the job considerably easier ■

Modernizations at the Newark and St. Louis breweries also neared completion. In Newark, new packaging line equipment is being installed and brew house renovations are under way. In St. Louis, modernizations in the Bevo packaging plant improved on-line performance in 1986. In addition, work began on a five-year modernization of the St. Louis brewing facilities.

Smaller modernizations are also under way at the Columbus and Los Angeles breweries.

Distribution

Anheuser-Busch, Inc. wholesalers and company-owned wholesale operations together provide the industry's most effective distribution system, setting standards of excellence and leadership for the industry with sophisticated and innovative operations and programs.

Approximately 950 independent wholesalerships distribute Anheuser-Busch, Inc. beers throughout the U.S. Anheuser-Busch, Inc. strongly supports the traditional three-tiered distribution system, which it believes is in the best interest of consumers, distributors and producers.

Communication is a key strength of Anheuser-Busch, Inc.'s exceptionally strong distribution system. A vital part of the communications effort is the Anheuser-Busch Wholesaler Advisory Panel, which is comprised of a cross-section of wholesalers who meet regularly with top management. The panel offers wholesalers and company management the opportunity to openly communicate about—and act upon—key company and industry issues.

The Wholesale Operations Division of Anheuser-Busch, Inc. operates 10 company-owned distributorships located in Boston, Newark, Louisville, Chicago, New Orleans, Tulsa, Denver and, in California, Sylmar, Riverside and Stockton. In 1986 the division

had another successful year, exceeding both its volume and profit budgets.

As Anheuser-Busch Companies continued to diversify into non-beer beverages, the Wholesale Operations Division began distributing Dewey Stevens wine cooler and à Santé and Saratoga waters in addition to beer. It also distributes Master Cellars wine and Eagle Snacks.

The Wholesale Operations Division is often used as a "testing" ground for programs that may be used by the company's independent distributors. For example, a newly developed computer system has been installed at seven of the division's 10 operations. Installation at the remaining three locations will be completed in early 1987. The computer system, which can be customized to serve the needs of independent Anheuser-Busch beer wholesalers, provides timely financial and sales information as well as the management tools necessary to reduce operating costs without jeopardizing retailer service.

The Anheuser-Busch Investment Capital Corporation, formed in 1984 to share equity positions with qualified partners in Anheuser-Busch, Inc. distributorships, is currently invested in six wholesalerships. These investments provide the subsidiary's operating general partners with the opportunity to function as independent wholesalers while increasing their equities and building toward total ownership.

By providing needed capital for qualified candidates, the Anheuser-Busch Investment Capital Corporation will continue to play a prominent role in strengthening the brewer-wholesaler team.

BUSCH AGRICULTURAL RESOURCES, INC.

(Barley malt production, rice milling, turf farming, hop farming and other agricultural operations)

"See that no malt is put on the kiln before it is entirely matured, for we can only make excellent beer with a most excellent article of malt."

Adolphus Busch wrote that directive in a letter in 1895, and the philosophy of Busch Agricultural hasn't changed. Product quality—with a profit orientation—continues to be the foundation of this subsidiary's philosophy.

Today Busch Agricultural's Moorhead, Minn., and Manitowoc, Wisc., plants supply 30% of Anheuser-Busch, Inc.'s malt needs.

Falling farm prices during the year created a favorable acquisition climate for Busch Agricultural. In 1986, it acquired Pacific International Rice Mills, Inc. (PIRMI) in Woodland, Calif. The acquisition will allow Busch Agricultural to enter the consumer rice market as well as sell up to 20% of PIRMI's volume to Anheuser-Busch, Inc. for use in brewing.

PIRMI is expected to market more than 15% of California's rice crop, producing approximately 200,000 tons of milled rice annually. The mill currently offers white and brown rice in long, medium and short varieties. Specialty rice products and rice flour are also produced.

PIRMI's rice brands are especially popular in the western U.S., the South Pacific and Canada. In addition to producing 10 of its own brands, the company also supplies private label rice for distributors and chain stores.

In December, Busch Agricultural acquired the assets of Gourmet House, Inc., a Minnesota-based wild rice company. This acquisition will complement and expand Busch Agricultural's rice-product lines.

In addition to these important rice-related acquisitions, three additional grain elevators in the Midwest and one elevator in the West were acquired in 1986. These acquisitions allow Busch Agricultural to exercise significantly increased control over raw material quality and cost.

In 1986, Busch Agricultural expanded its involvement in the barley seed business at Powell, Wyo. and Idaho Falls, Idaho, and acquired a new facility at Fairfield, Mont. The newly constructed seed facility in Moorhead, Minn., reached full production capability in 1986.

These plants support the marketing of new varieties of barley that have been developed at the subsidiary's research facility near Fort Collins, Colo. The seeds of these new varieties are marketed under the NutriGold trademark to growers who produce malting barley for beer production.

Busch Agricultural also operates Nutri-Turf, Inc., which manages land application operations at Jacksonville, Fla., and Robersonville, N.C. These operations significantly reduce brewery and snack plants' sewer expenses. They also allow Nutri-Turf to produce high quality turf grasses for sale to golf courses and landscapers.

In 1986, Nutri-Turf completed work on a land application site near Jacksonville, which tripled the acreage under turf production in Florida. A commercial sod and sprigs business is also being developed in Jacksonville.

In addition, a new land application site is being developed in Fayetteville, Tenn.

CONTAINER RECOVERY CORPORATION

(Recycling)

Container Recovery Corporation was formed to provide a positive alternative to mandatory deposits and to help reduce inflationary pressures on container costs. In 1986, for the second consecutive year, the subsidiary was the largest aluminum recycler in the beverage industry in the United States. It recycled more than 230 million pounds of aluminum.

The subsidiary operates in 48 states and the District of Columbia and has three container recycling facilities—in Marion, Ohio; Nashua, N.H.; and Cocoa, Fla.

METAL CONTAINER CORPORATION

(Can and lid manufacturing)

More than 100 years ago, Anheuser-Busch recognized the value of vertical

Busch Agricultural recently entered the consumer rice market. The subsidiary also supplies rice and barley malt to Anheuser-Busch, Inc. for use in brewing.

Adolphus Busch believed in promoting his products. During his travels, he frequently gave away Anheuser-Busch pocketknives. They contained several blades—for peeling away the foil that covered the top of Budweiser bottles and cutting through the wire bale that helped hold the cork in place—and a corkscrew. As a final touch, a peephole at the end contained a portrait of Adolphus.

Brewery trade cards—similar to today's baseball cards—were distributed by Anheuser-Busch traveling salesmen to saloon owners who catered to a more refined clientele. The cards showcased popular operas.

Sheet music was also an innovative way to promote beer, Anheuser-Busch discovered. Home entertainment consisted of evenings spent reading or playing musical instruments, so Anheuser-Busch commissioned songs that contained references to Anheuser-Busch or Budweiser in the title or lyrics.

Perhaps the most famous Anheuser-Busch promotional piece was the Custer's Last Fight lithograph. First marketed in 1896, it has been reprinted in 17 editions and, for many decades, could be found in bars across the nation. Today its early editions are highly sought collectibles.

The Budweiser Clydesdales are even more popular today than when they were introduced in 1933 to celebrate the repeal of Prohibition. Even with three hitches traveling 90,000 miles each year, they are still able to meet only a fraction of the requests for appearances. As one of the most recognizable product symbols in America, their promotional value is incalculable

integration in packaging. In 1882 the company began making its own bottles, and by 1901 the Adolphus Busch Glass Manufacturing Company had become one of the country's largest manufacturers of bottles.

Although Metal Container Corporation doesn't make bottles, it carries on the container-making tradition. With plants in Jacksonville, Fla.; Columbus, Ohio; Arnold, Mo.; Gainesville, Fla.; Oklahoma City, Okla.; and Carson, Calif., the subsidiary produced more than four billion cans—one-third of Anheuser-Busch, Inc.'s requirements—and more than five billion lids in 1986.

Unlike its earlier counterpart, however, Metal Container also supplies containers to outside customers. The subsidiary has a long-term supply agreement with Wis-Pak, a major Pepsi-Cola bottling cooperative located in Watertown, Wisc., and one of the largest single purchasers of soft drink cans in the U.S.

In 1986, the subsidiary acquired a can and lid manufacturing company in Carson, Calif., from Metal Box PLC, a major international packaging company located in England. The acquisition is consistent with Metal Container's growth strategy and is a key element in the company's plan to become a larger factor in the soft drink container market. The Carson facility is a major supplier to Pepsi Bottling Group's filling locations in Southern California and Arizona.

In 1986, Metal Container's new Oklahoma City lid manufacturing facility began producing ecology-type lids with stay-on tabs for both Anheuser-Busch and the soft drink market. Additionally, at the Arnold can plant a new high-speed can line went into operation and major modernizations proceeded at both the Jacksonville and Columbus can plants.

Metal Container's plans for growth include increasing its supply of cans and lids for Anheuser-Busch, Inc. In line with this, a can manufacturing plant is being built in Windsor, Colo., to supply aluminum beer cans to Anheuser-Busch's new Fort Collins, Colo., brewery. Construction began in late 1986 and is scheduled to be completed by the first quarter of 1988. This facility will produce more than 900 million cans per year.

A new West Coast lid plant, which will supply lids to both Anheuser-Busch, Inc. and soft drink markets, has also been approved. Construction will begin in 1987.

ANHEUSER BUSCH BEVERAGE GROUP, INC.

(Non-beer beverages)

The Anheuser-Busch Beverage Group is positioned to take advantage of current market conditions, which offer opportunities in the beverage industry. Overall per capita beverage consumption is up and there are particularly strong trends in certain beverage categories. For example, there is growing consumer demand for waters as well as juice-based and lower-calorie beverages due to the continued interest in health and fitness.

Currently, the growth strategy for the Beverage Group calls for both the acquisition of established businesses and self-development of new products.

In 1986, the Beverage Group introduced Dewey Stevens, the first lower-calorie wine cooler. The product has only 135 calories per 12-ounce serving—more than one-third fewer calories than most competitive coolers—and contains no artificial sweeteners.

A blend of high-quality wine and all-natural fruit juices, Dewey Stevens is produced in California and Maryland. The brand is available in 45 states and the District of Columbia.

In addition, in early 1987 the Beverage Group entered the soft drink arena with an all-new natural soft drink, Zeltzer Seltzer. Initially the product will be in limited distribution in select markets throughout the country. Available in six flavors—raspberry, black cherry, vanilla creme, peach, cola berry and blueberry—the product has superior quality and a unique taste.

Metal Container supplies containers to both Anheuser-Busch and outside customers.

In 1986, the Beverage Group also acquired the LaMont Winery in DeGiorgio, Calif., from John Labatt, Limited. The winery produces the Beverage Group's Master Cellars draft wines and is now devoting a greater percentage of its production capacity to meet the growth needs for that brand. It will also become a primary production source for Dewey Stevens.

Additionally, the Beverage Group acquired the Showerings bottling facility and warehouse in Havre de Grace, Md., from Tetley, Inc. This acquisition provides the Beverage Group with a high-quality production and packaging facility which is strategically located in the eastern United States. Showerings will be used primarily to meet East Coast production needs for Dewey Stevens and Zeltzer Seltzer.

Distribution of Master Cellars wines, the subsidiary's line of premium-quality California table wines, was expanded in 1986. The wines, which are available only on draft as house wines in restaurants and lounges, are now available in 39 states and the District of Columbia. The family of Master Cellars wine includes Dry Chablis, Classic Chablis, Vin Rose, Burgundy, White Zinfandel and, in select markets, Rhine wine.

Since 1980, the U.S. bottled-water market has grown an average of 15% annually, to a high of $1.1 billion last year. Sales are projected to exceed $2 billion by 1990. In order to take advantage of this trend, the Beverage Group is broadening its participation in the segment. In 1986, Anheuser-Busch, Inc. acquired Ballygowan Spring Water Co., Ltd. of Ireland. Anheuser-Busch will distribute Ballygowan natural spring water products in the U.S. through the Beverage Group. A

As early as 1906, Adolphus Busch foresaw the possibility of Prohibition. He resolved to be prepared for the worst and directed his technical staff to produce a nonalcoholic beverage that would taste like beer. The result was Bevo, first marketed in 1916. The product enjoyed considerable success both in the U.S. and in such countries as Canada, Japan, England, France, Italy, Holland, New Zealand and Spain. Anheuser-Busch was well prepared in 1920 when national Prohibition went into effect.

During this 13-year period of forced alcohol abstinence, Anheuser-Busch produced a number of carbonated soft drinks, including Carcho (chocolate-flavored), Kaffo (coffee-flavored), Grape Bouquet and Buschtee. Root beer and extra-dry ginger ale were also made.

Anheuser-Busch's early ventures into the non-beer beverage market were prompted by a desire to keep the company in business when its principal product—beer—could not be made. Today the philosophy is different. The Anheuser-Busch Beverage Group is pursuing opportunities in this market to take advantage of growth opportunities ■

production facility will be built at the Newcastle West source and is scheduled for completion in the spring of 1987.

The Beverage Group has also entered into a partnership agreement with the Cabin Bar Ranch of Olancha, Calif. The agreement makes the Beverage Group the majority owner of the newly formed Cabin Bar Association, thereby giving the Anheuser-Busch subsidiary access rights to the water resources of the Cabin Bar Ranch. Those resources include several natural springs of extraordinarily high-quality water.

Saratoga, a naturally sparkling mineral water, was introduced in the northeastern part of the U.S. in May 1986. The brand has met with moderate success in many of the major metropolitan areas, especially in the on-premise (bar and restaurant) segment. Plans call for distribution of Saratoga to be expanded to the Southeast by the second quarter of 1987.

The Beverage Group's flavored entry to the sparkling mineral water category, à Santé, was distributed in the western part of the U.S. in 1986. Distribution will be expanded in 1987 to include the North and Southeast. This will allow both à Santé and Saratoga to be available in many markets, providing Anheuser-Busch wholesalers with two products to compete in the rapidly growing bottled water business.

ANHEUSER-BUSCH INTERNATIONAL, INC.

(International beer licensing and marketing)

Shanghai. Melbourne. Yokohama. Gibraltar. Zanzibar.

Those are just some of the places where imported Budweiser was being enjoyed at the turn of the century. Business practices back then were slightly different, however. Records show that Anheuser-Busch once accepted coffee beans in payment for a beer shipment to South America because the country's currency was so unstable.

Two world wars, the Great Depression and Prohibition greatly curtailed the company's involvement in the world beer market. But Anheuser-Busch never lost interest in making its beers available around the globe.

Today, under the auspices of Anheuser-Busch International, the company is once again exploring and developing markets outside the U.S. The world beer market, more than 3.5 times as large as the U.S. market, offers opportunities for sales growth and profits.

Since Anheuser-Busch International was formed in 1981, Budweiser has been license-brewed in four countries and exported to more than 30 others. Additional expansions are planned.

Two new licensed-brewing agreements were signed in 1986. As part of an agreement between Anheuser-Busch and Guinness Ireland, Ltd., Budweiser will be brewed, marketed and distributed in Ireland. Guinness expanded distribution of Budweiser on November 1 with imported Budweiser that is shipped in bulk from the United States and packaged in Ireland. Distribution of locally brewed Budweiser will begin in the spring of 1987. Guinness is the market leader in Ireland and is the world's largest brewer of stout.

Anheuser-Busch International has also signed a licensed-brewing agreement with United Breweries Ltd. in Denmark, and local production of Budweiser is expected to begin in 1987.

In Canada, Budweiser continues to be brewed and distributed by Labatt Brewing Company, Ltd., the country's largest brewer. In 1986, Labatt began licensed production of two other Anheuser-Busch brands, Michelob and Bud Light. Canadian-brewed Bud Light is available in Quebec and Alberta and is being test marketed in Ontario. Canadian-brewed Michelob has been introduced in Quebec. Labatt continues to import Michelob to other provinces in Canada.

Watney Mann & Truman Brewers, Ltd., Anheuser-Busch's licensed partner in the United Kingdom, continued to expand its Budweiser distribution. Budweiser draft has been rolled out in southwest England, and Budweiser in cans is now available throughout the U.K. Watney Mann continues to import Michelob and distribute it in selected on- and off-premise accounts.

Since Anheuser-Busch International was formed in 1981, Budweiser has been license-brewed in four countries and exported to more than 30 others

Budweiser brewed by Suntory Limited in Japan continued its strong performance in that country in 1986 and now has a 57% market share in the international brands category. While beer industry sales in Japan increased by only 2% over 1985, Budweiser sales volume was up 33%. Budweiser is Japan's fifth largest selling beer.

Budweiser also continues to be brewed by National Brewery Limited in Israel.

Anheuser-Busch's commitment to quality is strongly evident in all of its international brewing operations. No compromises are made in Anheuser-Busch's traditional brewing methods. Anheuser-Busch brewmasters travel the world constantly, tasting and testing locally produced product to make sure that it meets Anheuser-Busch's rigid quality and taste standards.

Export Markets

In addition to licensed brewing, Anheuser-Busch continues to increase its worldwide presence by exporting its brands. During 1986, Budweiser was introduced on Africa's Ivory Coast and in Morocco, Sierra Leone, Guinea, the Canary Islands, Malta and Tonga.

Distribution of Michelob began in Italy and Switzerland and was expanded in France to include draft as well as bottled Michelob. Paris is the first city in Europe to sell Michelob draft beer.

Although baking is a relatively new industry for Anheuser-Busch, the company has made other consumer food products in the past. In 1920 Anheuser-Busch began producing ice cream to help it weather the drought of Prohibition. A-B Ice Cream was a success, and the company moved on to produce a number of other ice cream products, including Smack (a chocolate-coated ice cream bar) and frozen eggnog. By 1922, the company was operating three ice cream plants in New York, Oklahoma and Louisiana. They produced high-quality ice cream that made no effort to compete with cheaper brands ■

Anheuser-Busch's success didn't go unnoticed. In 1930 the Borden Company made an offer to buy the New York business, and Anheuser-Busch accepted. Signs of repeal were appearing, and the company was anxious to once more devote its energy to the beer business. The Oklahoma ice cream business was sold to Brownlee Cream Company, maker of Velvet Freeze ice cream. The Louisiana business was discontinued and the facility retained for other use ■

In the 1930s Anheuser-Busch also became involved in the production of waffle syrup. Brands produced included Bud Crystal, Bud Golden, Bud Waffle and Bud Pure Honey Flavor. The syrups were marketed in eight southern states, and at one point the company was the second-largest producer of table syrups in the South ■

Anheuser-Busch's ventures into ice cream and syrup are history now. But the company's interest in consumer food products resurfaced in 1982, when Anheuser-Busch acquired Campbell Taggart, the second-largest commercial baker in the nation. Campbell Taggart markets a wide variety of baked and refrigerated items nationally under a number of different brand names ■


Colonial
RECIPES
SPLIT TOP
WHEAT
BUTTERMILK

Like Anheuser-Busch, Campbell Taggart has a long tradition of innovation and excellence. The company was established in 1925 with a single bakery—the Manor Baking Company—in Kansas City. It began operating with 15 horse-drawn wagons, and its products were offered for sale under the "house-to-house" plan.

Although Manor bread is no longer made, Manor fruitcake is still offered by Campbell Taggart throughout its system during the holiday season. And Colonial bread, which was introduced in 1926, continues to be a popular Campbell Taggart brand.

Campbell Taggart no longer sells its products house-to-house, but it has continued the tradition of offering quality baked goods. Today its brands include Colonial, Rainbo, Kilpatrick's, Earth Grains and Grant's Farm. It also offers a variety of specialty items such as croissants and French bread. In addition to baked items, Campbell Taggart also produces refrigerated dough products, a wide variety of salad dressings and a line of frozen Mexican food. The company sells its baked products in the U.S., France and Spain ■

■ CAMPBELL TAGGART, INC.

(Bakery products, refrigerated and frozen foods, specialty stores)

Campbell Taggart, Inc. began business 61 years ago in a one-story stucco building in Kansas City. Its ambitious goal was to become a first-class baking company, initially selling house-to-house, but eventually expanding to develop a nationwide network of local bakeries specializing in a broad line of top-quality baked goods.

Since the company first opened its doors for business in 1925, it has not only met, but exceeded, its original goals. Today Campbell Taggart is a highly diversified, Dallas-based food products company with operations in about 35% of the United States and in various international markets.

In 1986, the company exceeded expectations in all major business segments. Profit performance was substantially improved over 1985.

Bakery Operations

Campbell Taggart's bakery division, which accounts for 68% of the company's sales, introduced two new products in 1986.

Test marketing of Family Recipes Light—lower-calorie wheat and white breads—began in 1986. Consumer reaction has been favorable, and distribution will be expanded in the first half of 1987.

During 1987, Campbell Taggart also upgraded its Pattycake snack cake line with an extensive quality improvement program and changed the product name to Break Cake in several test markets. In subsequent independent surveys, the product tested very

favorably and was preferred relative to the products of major competitors. New packaging graphics and special in-store display racks were also introduced in the test markets.

The Break Cake product line, which includes more than 60 items such as cupcakes, doughnuts, fruit pies and honey buns, will be introduced in other Campbell Taggart markets in 1987.

The completion of capital and operational improvement programs and several bakery consolidations also contributed to Campbell Taggart's improved performance in 1986.

Capital improvement programs were completed at bakeries in Oakland and Sacramento, Calif., Oklahoma City, Okla., and Little Rock, Ark.

Production in three markets—Kansas City, Mo., Grand Island, Neb., and Indianapolis, Ind.—was discontinued in order to consolidate operations, increase efficiencies and reduce costs. However, other Campbell Taggart bakeries continue to serve these markets, and distribution of fresh bakery products has been maintained.

In keeping with its quality orientation, the company introduced a new systemwide quality control program in 1986. The program is designed to monitor the specific, critical points in the baking process which affect quality. The program is currently in place at all bakeries and has significantly improved the results of quality control efforts.

Existing Campbell Taggart products performed well in 1986. The Earth Grains line of variety bread and rolls maintained its position within the premium segment of the market. The expansion of Grant's Farm bread, available in five varieties, continued. The product is now in 18 markets and will be expanded to additional markets in 1987.

The rollout of the Family Recipes line of bread, which was introduced in 1985, was completed in all Campbell Taggart markets in 1986. Available in four varieties—Honey-Buttered Split Top White and Split Top Wheat, Wheat and Honey Grain—the breads combine the soft, smooth texture of Colonial, Rainbo and Kilpatrick's breads with natural grain goodness without the use of artificial preservatives.

Roman Meal Light, a bread made by Campbell Taggart under franchise in certain markets, continued to meet expectations.

Distribution of Sandwich Croissants and Earth Grains International Hearth French Bread has been expanded to all Campbell Taggart markets. Introduced in 1985, both products continue to enjoy strong consumer acceptance.

Campbell Taggart also continued to supply specialty rolls, sandwich buns and other products to commercial customers. For example, it:

- Supplies the majority of Burger King's national demand for sandwich croissants, as well as hamburger and sandwich rolls in the Carolinas;
- Supplies Rax Restaurants nationally with cornmeal-dusted hoagie buns and Hardee's with multi-grain hamburger buns;
- Makes Arby's onion and poppy seed buns;
- Produces poppy seed kaiser rolls for Jack-in-the-Box restaurants;
- Makes Nature Valley Granola Bars for General Mills.

Campbell Taggart also continued its involvement with Eagle Snacks, Inc., another Anheuser-Busch subsidiary. In addition to making cheese crackers and pretzels for the company, Campbell Taggart also distributes Eagle Snacks in 40 of its 50 markets.

Campbell Taggart supports all of its consumer products with advertising and promotions. For example, the company continued its "Iron Kids" program for children 7-14 years old. The program involves in-store promotions centered around a local triathlon for children. The program will continue in 1987.

Distribution of Campbell Taggart's El Charrito line of frozen Mexican foods was expanded in 1986. Sales were up 24% in 1986 versus 1985.

Refrigerated Products

Campbell Taggart is the largest manufacturer of private label refrigerated dough products in the U.S.

In 1986, the company added a French loaf to its Hot 'N Fresh line of specialty private label dough products. The line also includes a regular bread loaf and breadsticks, both of which performed well in 1986.

Merico Classics, a line of refrigerated Danish products which includes Classic Apple and Classic Cherry Danish, as well as Classic Cinnamon Rolls, continued its successful introduction in 1986. Texas-style cookies and fudge brownies were added to Merico's line of private label refrigerated dough products in 1986.

In its institutional food service operation, Campbell Taggart introduced two lines of frozen cookie dough. The Classic line is available in four varieties, the Gourmet line (richer ingredients) in six. Packaged in 18-pound tubs, this cookie dough is used primarily by restaurants and in-store bakeries. The product has been well accepted and has significantly exceeded projections.

Campbell Taggart also makes a variety of salad dressings, dips and toppings, as well as creamers and imitation sour cream. These are sold to food service operations under private labels and under Campbell Taggart's own Rod's and Royal brand names. These products continued their solid performance.

Frozen Foods

Distribution of El Charrito, a distinctive line of frozen Mexican foods, was expanded in 1986 to six additional markets. The line has also been introduced in three West Coast cities—Los Angeles, San Francisco and San Diego—which account for 28% of all Mexican food sales in the U.S. This expansion has allowed the brand to increase its presence significantly in the Mexican food market. The addition of several new items to the El Charrito line is planned for 1987.

Baker's yeast, another of Anheuser-Busch's Prohibition era businesses, was introduced in 1927. Sales were slow initially, and some began to question the soundness of this business decision. But August Busch Sr. dug in his heels. Anheuser-Busch was in the yeast business for the long term, he said. Someday it would be an important profit center for the company.

Two trained elephants—symbols of strength—promoted the yeast, making appearances around the country at such events as trade shows and fairs. Statues of elephants were placed on top of yeast delivery trucks and atop the St. Louis Brew House gates. The elephants represented the strength that Budweiser Yeast added to baked goods.

Today Busch Industrial Products Corporation is the leading producer of compressed baker's yeast in the United States. It supplies almost 45 percent of the compressed baker's yeast used commercially in this country ■

In 1986 El Charrito expanded its market share and sales base, with sales up 24% versus 1985.

International

1986 was a year of sales growth for Campbell Taggart's international operations. The company's Spanish subsidiary, Bimbo S.A., remained the largest commercial baker in Spain. Bimbo Dos, a firmly textured bread in the continental style, was introduced in 1986 and enjoyed wide consumer acceptance. Bimbo expects this product to become a significant factor in the packaged bread market.

Bimbo also began distributing Eagle Snacks to approximately 5,000 retail outlets in the coastal resort area of Spain. In the third quarter of 1986, some Eagle Snacks products were introduced in Madrid. Additional opportunities throughout Spain and France are currently being considered jointly by Eagle Snacks, Inc. and Campbell Taggart's European operations.

Spain's entry into the Common Market, which has allowed goods to move more easily over its boundaries, has facilitated the integration of Campbell Taggart's international operations. As a direct result, Bimbo Refrigeratos, a refrigerated dough product supplied by Campbell Taggart's French subsidiary, Europate, was successfully introduced in Spain.

Europate continued to produce frozen and refrigerated dough products which are sold in several European countries. Le Pain Turner S.A., acquired by Campbell Taggart in 1985, remained the second-largest commercial baker in France. Bimbo bread products are now being sold in southern France through Le Pain Turner.

Other

In 1986, five additional Old America Stores were opened, bringing the total to 18. These stores sell imported and domestic decorating and craft merchandise and are continuing to experience tremendous growth.

Old America stores are primarily located in moderately sized towns throughout the U.S. and sell such merchandise as silk flowers, frames and prints, craft and artist supplies, wicker furniture and glassware.

Campbell Taggart's folding carton packaging division continued to produce folding cartons for sale to other Campbell Taggart divisions and outside customers.

EAGLE SNACKS, INC.
(Premium snack and nut items)

In 1986, Eagle Snacks, Inc. continued to grow through penetration of the consumer market in existing sales territories and expansion of the salted snack line to most areas east of the Mississippi. The Eagle Snacks Honey Roast nut line is distributed nationally and continues to be featured on most national airlines.

The Cape Cod brand of old-fashioned, hand-cooked chips continues its rapid growth in the New England marketing area, and in 1986 the product was test marketed outside of New England. The Cape Cod plant, which is located in Hyannis, Mass., is open to the public year-round for tours so that visitors can observe the unique chipping process.

Eagle Snacks continues to roll out its unique Hawaiian Kettle and Russet Valley potato chip brands. These chips are hand-cooked and provide the consumer with products that are differentiated from conventional chips in terms of both texture and taste.

To meet the growing national demand for Russet Valley chips, in 1986 Eagle Snacks opened a new potato conditioning facility in Rexburg, Idaho. Operated by Sun-Glo of Idaho for Eagle Snacks, the facility has a storage capacity of 10 million pounds of Idaho (baking) potatoes, which are used in the production of Russet Valley chips. In addition to protecting freshness and ensuring the desired chip color, the new facility is also designed to guarantee a dependable, year-round supply of quality Idaho potatoes.

Eagle Snacks also added production capacity in 1986. A new snack facility in Fayetteville, Tenn., came on stream in December 1986, and the Cape Cod plant was expanded by 50%. In addition, in July 1986 ground was broken for a third snack plant in Visalia, Calif. This plant will be completed in early 1988 and will produce the full Eagle Snacks product line.

Consumer acceptance of the Honey Roast nut line has been exceptional and has not been limited to the domestic market. International demand has been significant enough to warrant expansion beyond the U.S. Honey Roast Peanuts are now sold under distribution agreements in Japan and Spain.

Eagle Snacks are distributed in the U.S. by Anheuser-Busch beer wholesalers, by Campbell Taggart, Inc. and by company-owned snack branches.

BUSCH INDUSTRIAL PRODUCTS CORPORATION
(Baker's yeast and yeast products)

When Anheuser-Busch entered the yeast business in 1927, August Busch Sr. published a statement in baking industry publications. It read, in part, "Ahead are tremendous sales opportunities for the baking industry and for us. By working and planning together, we can turn these opportunities into new sources of volume and profit."

Anheuser-Busch, he said, was in the yeast business to stay.

And he was right. In 1986, Busch Industrial Products Corporation completed its 59th year in the yeast business and it remains the leading producer and marketer of compressed yeast in the United States.

The subsidiary produces baker's yeast in St. Louis, Mo., Old Bridge, N. J. and Bakersfield, Calif. It also produces Budweiser Autolyzed Yeast, a high protein product used by the meat industry, and a range of autolyzed yeast extracts (AYE). AYE products are primarily used as flavor enhancers in the food processing and snack food industries.

Growth in the mature U.S. yeast industry must come from the development of new yeast technology, and in 1986 Busch Industrial Products introduced Budweiser brand Instant Dry Yeast (IDY). IDY takes up less storage space than fresh yeast, requires no refrigeration, has a shelf life of one year and can be customized to specific baking applications. The product performs comparably to fresh compressed yeast in selected applications and is enjoying increased acceptance in the pizza and retail baking markets.

In conjunction with a packaging and filtering modernization at the Old Bridge plant, more IDY production capability will be added in 1987.

Productivity improvement continued to be stressed in 1986 to help offset price increases in molasses (the primary raw material) and other production costs.

In its first full year of operation, the new bio-energy waste treatment system at the Old Bridge plant also reduced energy costs and improved waste disposal efficiency.

A modernization, which increased efficiencies at the St. Louis facility, was completed in 1986.

Bakersfield, the newest of the three yeast plants, enjoyed a record year in 1986. It remains one of the most automated and efficient yeast plants in the world.

The Bakersfield plant land application system for waste disposal also completed another successful year of operation. The system uses the nutrient value of plant effluent to grow alfalfa at a ranch near the plant. This system reduces disposal costs and generates income through alfalfa sales.

To meet sales demand, Eagle Snacks added production capacity in 1986. Ground was also broken for a new snack plant in California.

Anheuser-Busch's interest in providing authentic settings for family entertainment can be traced back to the 1904 St. Louis World's Fair. The company largely financed the Tyrolean Alps attraction, a meticulous reproduction of a Tyrolean mountain village. The attraction was backed by imitation snow-capped peaks and was described at the time as one of the finest exhibits at the fair. Special acclaim was given for the intricate detail of its architecture ■

Among the attractions in the village were a barn where native dances were demonstrated; a native band and costumed singers; a fountain that was illuminated with colorful electric lights; small houses; a village church; and a castle. Visitors could ride a tram car through Alpine scenery, occasionally catching glimpses of native villages. ■

Although the attraction was dismantled after the fair and kept in storage for a number of years for possible use in an amusement park or beer garden, it was never reassembled. But Anheuser-Busch's idea of building an amusement park later blossomed. Today there are two Busch Gardens—"Old Country," an authentic representation of European hamlets, and "Dark Continent," an "African" themed park ■

Although most of the architectural features at both gardens are representations, one can also find authentic bits of history. In the Old Country, in a square reminiscent of those found in marketplaces in German villages, stands a bronze fountain. Cast in 1914 in Berlin, it was commissioned by Lilly Busch as a memorial for her late husband, Adolphus Busch—founder of Anheuser-Busch. It stood in St. Louis for many years ■

Faced with Prohibition, Anheuser-Busch sought innovative ways to use its existing facilities. One of the first areas to become profitable in a non-beer venture was the Vehicle Department.

In 1921 the department began producing the Lamstead Kampkar, a forerunner of today's luxury recreational vehicles. Eight feet, eight inches long and five feet, three inches wide, the Kampkar shell sold for $700 and fit on a Ford chassis. The unique feature of the Kampkar was its sleeping facilities. The sides of the car let down and the seat and side cushions combined to make a bed on each side. Special tent-like awnings provided shelter from cold and rain.

During this era, the Vehicle Department also produced vehicle bodies for general utility and heavy hauling; refrigerated truck bodies for transporting perishable products; armored car bodies for banks; "The Rancher" (similar to a station wagon); and an elaborate stable-on-wheels for transporting racing and show horses.

Although Anheuser-Busch, through Busch Entertainment, still provides accommodations for vacationers, today's travelers on the subsidiary's Exploration Cruise Lines ships travel in grander style. But just as the Lamstead Kampkar purchasers could vacation in more remote destinations because they took their accommodations with them, so, too, can Exploration Cruise Lines passengers visit less-accessible, less-congested places. The line's smaller, shallow-draft ships are designed for ports larger ships cannot enter, providing travelers with more intimate glimpses of native life at the ships' exotic ports of call ■

BUSCH ENTERTAINMENT CORPORATION

(Family entertainment)

Few visitors to Busch Entertainment's elaborate Busch Gardens theme parks in Tampa, Fla., and Williamsburg, Va., realize that the original Busch Gardens were just that—formal gardens at the 30-acre California estate of Adolphus Busch.

In addition to intricate botanical displays requiring the services of nearly 50 gardeners, the gardens contained whimsical statues of characters from Grimm's fairy tales and a miniature working millhouse and playhouse for his grandchildren's entertainment. Fountains and ponds were also in abundance.

Adolphus Busch enjoyed his gardens so much that he wanted to share them with others. Shortly after completing them, he and his wife Lilly opened the gardens to the public free of charge.

After his death, Lilly decided that the gardens' great popularity could serve as a source of revenue for charity. Beginning in 1923, all money collected was given to a Busch Gardens fund for disabled and needy veterans. This policy continued until her death in 1928, when the estate was liquidated.

Busch Entertainment Corporation has built on Adolphus Busch's legacy. Since 1959, when August A. Busch Jr. dedicated the Busch Gardens in Tampa, Fla., in honor of his grandfather, Adolphus, Busch Entertainment has continued to grow. Today it operates Busch Gardens "The Old Country" in Williamsburg, Va.; Busch Gardens "The Dark Continent" in Tampa, Fla.; Adventure Island in Tampa, Fla.; and Sesame Place in Philadelphia, Pa. The company also owns a majority interest in Exploration Cruise Lines.

Unlike the original gardens, however, Busch Entertainment facilities do have an admission charge, and they are well-positioned to take advantage of America's growing leisure-time industry.

In 1986, "Journey into Music," a Broadway-style musical revue, debuted at Busch Gardens in Williamsburg. Also making its debut was "The Sorcerer's Apprentice," a show which combines animatronics, special effects, magic and live entertainment. Attendance at the park was nearly two million visitors, down slightly from 1985.

Attendance at Busch Gardens in Tampa increased to 2.95 million. The Moroccan Palace, a new 1,200-seat theater, featured a lavish musical extravaganza, "Kaleidoscope," which was produced by Busch Gardens. Additionally, several new zoo and animal exhibits and an upgraded animal nursery were completed.

Adventure Island, a water park adjacent to Busch Gardens in Tampa, hosted more than 450,000 guests, the same as in 1985. The "Tampa Typhoon," a twin water speed slide with a 74-foot drop, was introduced in 1986.

Sesame Place, Busch Entertainment's action-oriented play park for children, introduced new water flumes and slides in 1986. The park, which is based on the popular Sesame Street children's show, hosted 640,000 guests in 1986, down slightly from 1985.

Seattle-based Exploration Cruise Lines continued to offer cruises to such destinations as Alaska, Panama, Mexico, Tahiti, Costa Rica, the Caribbean and New England. Certain ships also cruise on some of the major rivers in the American West. The line's shallow-draft "Explorer Class" vessels are able to travel to places that big ships cannot reach.

During 1986 the Explorer Starship, a new 250-passenger deluxe cruise liner, began service in the Caribbean. In 1987, it will offer new itineraries in both Alaska and the Caribbean.

BUSCH PROPERTIES, INC.

(Real estate development)

Adolphus Busch always had a fondness for Texas, the first state to which he shipped beer in his unique refrigerated railcars.

So it seems only natural that his real estate interests included property in Texas—namely, the Adolphus Hotel.

Completed in 1912, it was the tallest building in the state. It was not only elegant, but innovative. The hotel gave Dallas its first ice show, and the unique construction of the rink in one of the ballrooms permitted a polished hardwood floor to be placed over the ice to make a dance floor.

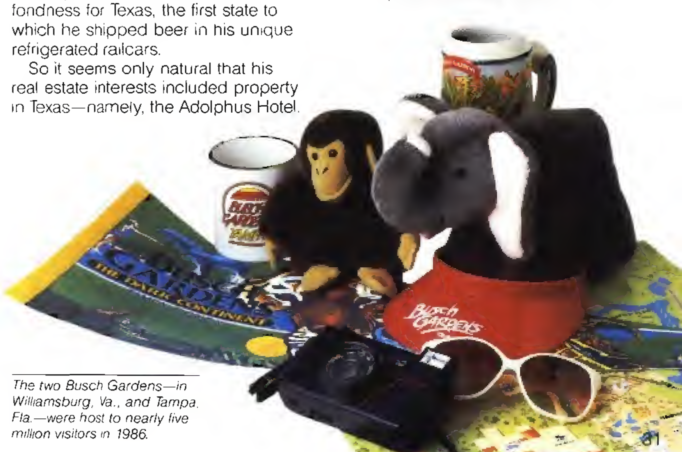
Anheuser-Busch sold the hotel in 1949, but it never lost interest in real estate. Today, Busch Properties, Inc. develops property for Anheuser-Busch.

Among the subsidiary's holdings is Kingsmill on the James, a 2,900-acre resort and residential community in Williamsburg, Va. In 1986 Kingsmill enjoyed record sales and profits of single-family homesites, townhouses and golf villas. The fifth phase of golf villas was completed in 1986, and operation of the golf villa rental program continues to be extremely successful.

Construction of a 60,000-square-foot, four-level conference center began in the fall of 1986 at Kingsmill. The center will be completed in the spring of 1988, and will contain eight meeting rooms equipped with state-of-the-art audiovisual equipment. A dining facility and cocktail lounge will overlook the James River and Kingsmill's River Golf Course. Private dining facilities will also be available.

Conference guests will be lodged in the existing golf villas and in condominiums that will be built adjacent to the conference center. The new condominiums will add 350 bedrooms to the rental program.

The facility will also include a 23,000-square-foot sports center located near the conference center. The sports center will feature indoor



The two Busch Gardens—in Williamsburg, Va., and Tampa, Fla.—were host to nearly five million visitors in 1986.

Anheuser-Busch has long had an interest in real estate. One of the more interesting chapters involves the Bevo Mill. Anheuser-Busch constructed this restaurant in 1916 in an attempt to convince Americans that beer was not something drunk only in dives and saloons, as promoted by the Prohibitionists. In keeping with the European temperance concept, only beer and light wines were served with meals.

The Bevo Mill didn't stop Prohibition, but it did outlast it. Now a St. Louis City Landmark, it is still in operation.

Anheuser-Busch real estate interests have broadened considerably since the days of Prohibition. Today its major holding is Kingsmill on the James, a 2,900-acre residential community on the James River near Williamsburg, Va. In addition to townhouses, semi-attached cluster homes and private residential homesites, Kingsmill on the James features two 18-hole championship golf courses; two recreation centers with swimming pools; a tennis center; bicycle/hiking trails; a restaurant and clubhouse; two fishing lakes; and a marina on the James River for sailing and powerboating.

In 1986, construction began on a new conference center at Kingsmill

and outdoor swimming pools, two racquetball courts, a tennis complex, a fully equipped health club, a game room and a restaurant.

The annual Anheuser-Busch Golf Classic, a regular PGA Tour event since 1977, was held on Kingsmill's River Golf Course in July. The grand opening of the new 18-hole Plantation Golf Course, designed by Arnold Palmer, was held in April.

The office market strengthened in Columbus, Ohio, resulting in an improved performance by the Busch Corporate Center located there. The Fairfield, Calif., Busch Corporate Center continued to suffer from a weak industrial and electronics market.

ST. LOUIS NATIONAL BASEBALL CLUB, INC.

(Cardinal baseball)

The St. Louis Cardinals, the company's major league baseball subsidiary, was one of the best-drawing clubs in 1986. The Cardinals reached the million mark in home attendance earlier in the season than ever before in the team's history. In 1986, the team drew almost 2.5 million fans for its second-largest home attendance in history. The Redbirds' attendance was third in the National League behind only Los Angeles and New York.

On the field, the defending National League Champions stumbled at the beginning of the season, and after the first two months had the worst record in the league. But following the All-Star game, the team quickly righted itself. The club posted a winning record during the balance of the season to finish third in the National League's Eastern Division.

With the addition of some younger players from the Cardinals' farm system, the average age of players in 1986 was 27.

Vince Coleman, the 1985 National League Rookie of the Year, continued to excite St. Louis fans by stealing 107 bases. He became the first major-league player to steal more than 100 bases in each of his first two seasons, and the first National League player to steal 100 bases twice.

Relief pitcher Todd Worrell was named 1986 National League Rookie of the Year. He blazed his way to a Major League rookie record with 36 saves and became the first rookie pitcher ever to lead the Major League in saves and to earn National League Relief Pitcher of the Year honors.

CIVIC CENTER CORPORATION

(St. Louis real estate)

Civic Center Corporation had a successful year in 1986. Revenues at Busch Stadium, Civic Center's primary property, benefitted from exceptional attendance during the Baseball Cardinals' season.

In 1986, 39 deluxe box suites were reconstructed and fully leased at the stadium for the 1986 baseball season. Replacement of the stadium's original seats and expansion of seating capacity were initiated in 1986 and will be completed prior to the 1987 baseball season.

Parking revenues at Civic Center's four garages increased as a result of the commercial growth in downtown St. Louis. Civic Center also owns 2-1/2 undeveloped city blocks adjacent to or near Busch Stadium.

BUSCH CREATIVE SERVICES CORPORATION

(Business communications)

The company's business communications subsidiary continued to grow in 1986, ending the year with record sales and profits. The expanding use of video by Anheuser-Busch and other clients resulted in increased sales for the subsidiary's Video Services Department.

Innervision Productions, Inc.—Busch Creative's video production subsidiary—also enjoyed a record year. Additional capabilities and capacity were added in 1986 with the purchase of state-of-the-art audio, computer graphics and special effects editing equipment.

In late 1986, Busch Creative acquired Optimus, Inc., the leading Chicago film and videotape post-production facility. This acquisition will allow Busch Creative to take advantage of additional opportunities in the expanding field of film and video post-production.

ST. LOUIS REFRIGERATOR CAR COMPANY

(Transportation services)

St. Louis Refrigerator Car Company, one of Anheuser-Busch Companies' transportation subsidiaries, provides commercial repair, rebuilding, maintenance and inspection of railroad cars at facilities in Missouri, Illinois and Texas.

The St. Louis Cardinals finished the 1986 season third in the National League's Eastern Division.

Anheuser-Busch's interest in rail shipping dates to Adolphus Busch, who dreamed of building a fleet of refrigerated railcars to be used in a national network of rail distribution. He was not the first person to have this dream. Others had tried—and failed.

But Adolphus persisted. He wanted Budweiser to be the first national beer. To this end, he created a separate company in 1878 to build ice cars, insulated in such a manner that Budweiser would hold a constant temperature while in transit. He built ice plants and storage depots along the major rail lines, and by 1888 he was shipping Budweiser to every portion of the country in a fleet of 850 Anheuser-Busch ice cars. His dream was achieved.

Today Anheuser-Busch's railroad interests continue under the auspices of St. Louis Refrigerator Car Company and Manufacturers Railway Company ■

Busch Mechanical Services, Inc.—St. Louis Refrigerator Car's subsidiary—opened Busch Transportation Services in Belleville, Ill., in 1986 for repair of highway trailers on a commercial basis.

St. Louis Refrigerator Car showed improved profits over 1985.

■ MANUFACTURERS RAILWAY COMPANY

(Rail switching, railcar operation, trucking and warehousing)

Manufacturers Railway Company provides terminal rail switching services to St. Louis industries. It operates a fleet of 522 insulated and cushioned railcars, which are used exclusively for transporting Anheuser-Busch, Inc. beers.

The company also operates hopper cars and boxcars, which are used both by Anheuser-Busch and other shippers.

In addition, Manufacturers Railway subsidiaries furnish trucking and warehouse services at several Anheuser-Busch brewery locations.

Manufacturers Railway also owns and operates a 17,000-ton molasses terminal on the Mississippi River. This terminal receives barge shipments of molasses for use by another Anheuser-Busch Companies' subsidiary, Busch Industrial Products Corporation, at its St. Louis yeast plant.

The subsidiary had a profitable year in 1986.

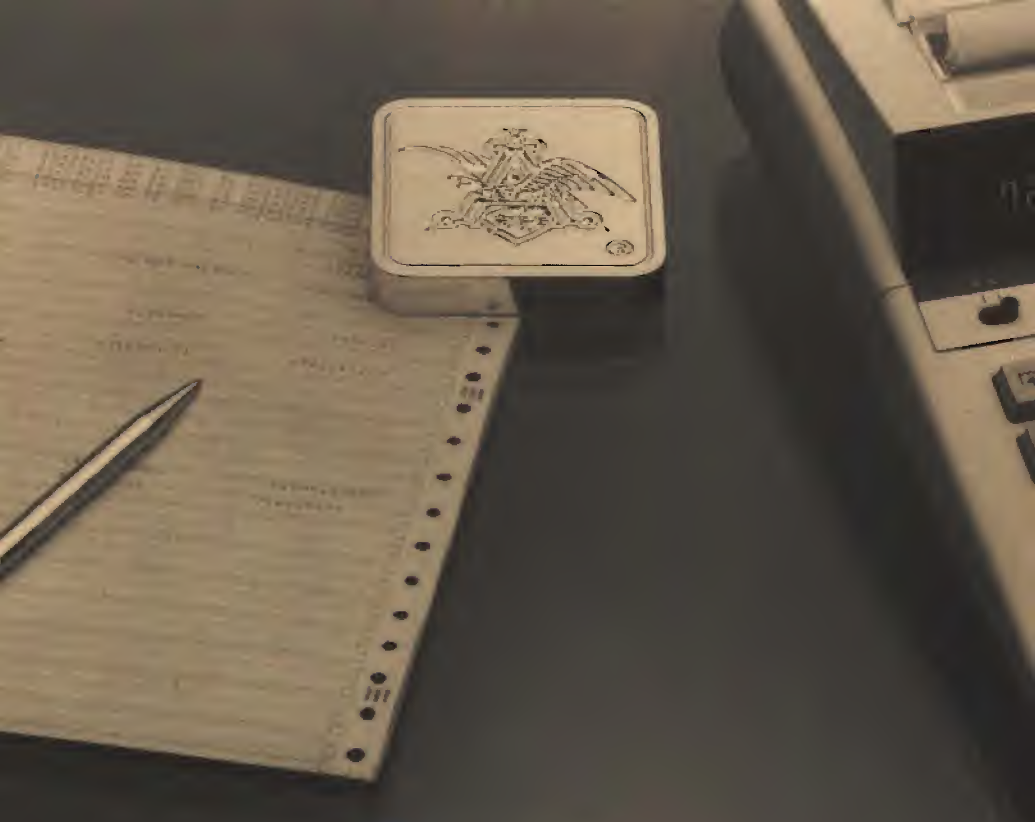
Joint Venture

■ INTERNATIONAL LABEL COMPANY

(Metalized labels)

International Label Company is a joint venture between Illochroma International, S.A., of Brussels, Belgium, and Metal Label Company, a wholly owned subsidiary of Anheuser-Busch Companies. In 1986, International Label produced more than five billion high-quality metalized labels using state-of-the-art rotogravure printing technology.

In addition to providing labels for Anheuser-Busch, International Label also services outside customers in the food, petroleum, household product and beverage industries.



ANHEUSER-BUSCH COMPANIES, INC.

1986 FINANCIAL REVIEW

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Sales*
(In billions of $)

Net Sales
Excise Taxes

**Number on top of each graph indicates gross sales.*

Operating Income
(In millions of $)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

OPERATIONS

This discussion summarizes the significant factors affecting Anheuser-Busch Companies, Inc. operating results and financial condition during the past three years. Additional information concerning the company's operations and financial condition is contained in the Letter to Shareholders and Operations Review Sections of this report. All per share amounts reflect the September 12, 1986 two-for-one stock split and the June 14, 1985 three-for-one stock split. Additionally, during 1986 the company adopted Financial Accounting Standard No. 87 (FAS 87), Employers' Accounting For Pensions. The financial effect of FAS 87 adoption increased 1986 pre-tax income $45 million, net income $23 million and earnings per share $.08.

Sales

Anheuser-Busch Companies, Inc. achieved record gross sales during 1986 of $8.40 billion, a 9.3% increase over 1985 gross sales of $7.68 billion. Gross sales include federal and state excise taxes of $724.5 million in 1986 and $683.0 million in 1985. Net sales were a record $7.68 billion, an increase of $680.0 million over 1985 net sales of $7.00 billion. The growth in sales reflects the increases in beer sales volume and revenue per barrel and the increasing sales of the company's other subsidiaries.

In 1986, Anheuser-Busch, Inc., the company's brewing subsidiary, sold an all-time industry record of 72.3 million barrels of beer. This represents an increase of 4.3 million barrels or 6.3% over 1985 beer volume of 68.0 million barrels and follows volume gains of 4.0 million barrels in 1985 and 3.5 million barrels in 1984, which represented increases of 6.3% and 5.8%, respectively. During the same periods, revenue per barrel has increased 1.3%, 2.4% and 2.5%. During 1986, Anheuser-Busch, Inc. increased its lead over its nearest competitor from a record 30.9 million barrels in 1985 to a record 34 million barrels in 1986.

Cost of Products Sold

Cost of products sold for 1986 was $4.97 billion, a 6.3% increase over the $4.68 billion reported in 1985. This increase follows a 5.9% and 7.3% increase in 1985 and 1984, respectively. These increases are primarily related to higher beer sales volume and higher sales of the company's other subsidiaries. As a percent of net sales, cost of products sold has declined during the past three years from 67.9% in 1984 to 66.8% in 1985 and 64.7% in 1986. This decline in cost of products sold is driven by higher sales volume and the company's productivity improvement and cost reduction programs.

Marketing, Administrative and Research Expenses

Marketing, administrative and research expenses for 1986 were $1.70 billion, an increase of 14.1% over 1985. This increase compares to increases of 12.0% for 1985 and 9.2% for 1984. These expenses include approximately $500 million of selling, delivery and general operating expenses associated with the company's wholesale baking operations and its company-owned beer wholesale operations.

Marketing, administrative and research expenses have increased over the past three years as a result of the higher level of sales activity, introduction of new beer brands and new bread,products, the expansion of snack distribution, entering international markets, and diversification into new products/ventures. Areas significantly affected by these factors since 1983 include media advertising, point-of-sale material, developmental expenses associated with new advertising and marketing programs for established products as well as new products; operating expenses of company-owned wholesale operations; bakery selling, delivery and general expenses; payroll and related costs; business taxes; depreciation; supplies; and general operating expenses.

Taxes and Payroll Costs

Taxes applicable to 1986 operations (not including the many indirect taxes included in materials and serv-

ices purchased) totaled $1.32 billion and highlighted the burden of the taxation on the company and the brewing industry in general. Taxes for 1986 increased $149.4 million or 12.7% over 1985 taxes of $1.17 billion. This increase follows increases of 6.8% in 1985 and 7.3% in 1984 and results principally from increased beer excise taxes related to higher sales volumes and higher income taxes related to the company's increased earnings level.

The Tax Reform Act of 1986 was enacted during the fourth quarter and includes numerous provisions which will impact the company during 1987 and future years. The primary provisions of the Act include repeal of the investment tax credit, the lowering of the company's statutory federal tax rate to 40% in 1987 and 34% in 1988, and reduction of the benefits of accelerated tax depreciation on new asset additions. Overall, the new tax legislation did not have a significant negative impact on 1986 reported results. Beginning in 1987, the lower corporate tax rate will more than offset the loss of the investment tax credit and will have a positive effect on 1987 earnings and cash flow. The Act will have an even more favorable effect in 1988 and thereafter when lower corporate tax rates are fully phased in.

Payroll costs during 1986 totaled $1.66 billion, an increase of $110.0 million or 7.1% over 1985 payroll costs of $1.55 billion. This increase follows an 8.4% increase in payroll costs in 1985 over 1984 and a 5.7% increase in 1984 over 1983. The increases in payroll costs reflect the effect of normal increases in salary and wage rates, benefit costs and additional employees.

Salaries and wages paid during 1986 totaled $1.39 billion. Pension, life insurance and welfare benefits amounted to $161.0 million and payroll taxes were $109.0 million. Employment at December 31, 1986 was 41,805 compared to 39,313 at December 31, 1985.

Operating Income

Operating income, the measure of the company's operating performance before interest costs, other expenses and nonrecurring items, was $1.00 billion in 1986, a $172.8 million increase or 20.8% over 1985. Operating income as a percent of net sales was 13.1% in 1986 as compared to 11.9% in 1985 and 11.6% in 1984.

Net Interest Cost

Net interest cost, or interest expense less interest income, before capitalization of interest, was $87.3 million in 1986, an increase of $15.2 million when compared to 1985 net interest costs of $72.1 million. The increase in net interest costs in 1986 as compared to 1985 is due primarily to a lower level of interest income earned during 1986 due to less excess cash available for investment and to the issuance during 1986 and 1985 of long-term debt (partially offset by two debt retirements) as described in the Liquidity and Capital Resources section of this discussion.

The decrease of $7.8 million in 1985 net interest cost compared to 1984 net interest cost is due primarily to retirements of long-term debt in late 1984.

Net Income

Net income for 1986 was $518.0 million, an increase of 16.7% compared with $443.7 million for 1985. Earnings per share of common stock for 1986 were $1.69, an increase of 19.0% compared with $1.42 for 1985. 1986 net income and earnings per share were favorably impacted $23 million and $.08, respectively, due to the adoption of FAS 87.

Net income for 1985 represented an increase of 13.3% over 1984 net income of $391.5 million. Earnings per share in 1985 were $1.42, an increase of 15.0% compared to the $1.23 per share earned in 1984.

The effective tax rate was 45.0% in 1986 and 43.2% in 1985 and 1984, respectively. The increase in the effective tax rate for 1986 is due principally to the investment tax credit related effects of the Tax Reform Act of 1986.

FINANCIAL POSITION

Liquidity and Capital Resources

The company's primary sources of liquidity are cash provided from operations and external debt. Information on the company's cash flow sources and uses for the past three years is

Total Taxes Paid
(In millions of $)

Total Payroll Cost
(In millions of $)

Net Income/Dividends on Common Stock
(In millions of $)

Net Income
Dividends

**Excludes nonrecurring, after-tax gain of $13.3 million on sale of Lafayette plant.*

Amount Provided for Expansion*
(In millions of $)

**Working capital provided by operations less dividends.*

set forth in the Consolidated Statements of Changes in Financial Position on page 46 of this report.

Working capital at December 31, 1986 was $5.0 million as compared to 1985 working capital of $127.7 million. The working capital ratio was 1 to 1 at December 31, 1986, 1.2 to 1 at December 31, 1985 and 1.1 to 1 at December 31, 1984.

During 1986 and 1985 the company issued the following long-term debt:

- $150 million, 8-5/8% Sinking Fund Debentures due 2016—Issued in November 1986 under a previously filed $300 million Shelf Registration.
- $100 million, 8% Notes due 1996—Issued in October 1986 under a previously filed $300 million Shelf Registration.
- $100 million, 6% (effective rate 7.5% to April 1991) Dual Currency Swiss Franc/U.S. Dollar Bonds due 1994—Issued in April 1986. These bonds have a redemption price of $115.9 million and contain early redemption options in April 1991.
- $48.9 million, 8% (effective rate 10.3%) Dual Currency Japanese Yen/U.S. Dollar Notes due 1995—Issued in September 1985. These notes have a redemption price of $55.3 million.
- $100 million, 11-1/8% Notes due 1993—Issued in May 1985.

During 1986 and 1985 the company also retired the following debt:

- $100 million, 11-1/4% Bonds—retired June 1986.
- $100 million, 9.9% Notes—retired November 1985.

Additionally, in January 1987 the company issued 75 million, 14% Australian Dollar Notes due 1990. Upon issuance, the company entered into a currency exchange agreement which provided the company with U.S. $49.1 million and created U.S. dollar debt in the amount of $49.1 million at maturity. Additionally, the agreement results in the company incurring a floating interest rate based on the AA 30-day commercial paper index. The Australian Dollar Notes were issued under the aforementioned $300 million Shelf Registration.

The company has fully hedged its foreign currency exposure for interest payments and note redemption through agreements with various lending institutions for all foreign debt issues described above.

During the next five years, the company plans an extensive capital expenditure program designed to take advantage of growth opportunities for its beer, food products and other businesses. Cash flow from operations will provide the principal source of funds to support these capital investments. However, a capital investment program of this magnitude may require external financing from time to time. The nature and timing of external financing will vary depending upon the company's evaluation of existing market conditions and other economic factors.

In addition to its long-term debt financing, the company has access to the short-term capital market utilizing its bank credit agreements and commercial paper to finance short-term working capital requirements and as a bridge to permanent financing of capital investments. The company has formal bank credit agreements which provide for maximum borrowing of $500.0 million. These agreements, the details of which are discussed in Note 3 to the Consolidated Financial Statements, provide the company with immediate and continued sources of liquidity.

The company's ratio of total debt to total debt plus equity was 30.9%, 25.9%, and 27.2%, at December 31, 1986, 1985 and 1984, respectively. This percentage has been calculated by including convertible redeemable preferred stock as part of equity because it is convertible into common stock and trades primarily on its equity characteristics.

Capital Expenditures

The company has a formalized and intensive review procedure for

all capital expenditures. The most important measure of acceptability of a capital project is its projected discounted cash flow return on investment.

Capital expenditures in 1986 amounted to $777.3 million as compared with $601.0 million in 1985. During the past five years, capital expenditures totaled $2.7 billion.

Capital expenditures for 1986 for the company's beer and beer-related operations were $544.8 million. Major expenditures by the company's brewing subsidiary include the continued construction of the Fort Collins, Colo., brewery and numerous modernization projects designed to improve productivity at all breweries. Major capital investments were made by Metal Container Corporation for the construction of a second lid plant in Oklahoma City, Okla., as well as modernizations at the Jacksonville, Fla., and Arnold, Mo., can plants.

The remaining 1986 capital expenditures totaling $232.5 million were made by the company's food products and diversified operations. Major expenditures include numerous Campbell Taggart, Eagle Snacks and Busch Industrial Products modernization and productivity improvement projects as well as new Busch Entertainment attractions. Also, due to the national rollout of certain Eagle Snacks products during 1986, the subsidiary completed construction on an additional production facility in Fayetteville, Tenn.

The company expects its capital expenditures in 1987 to approximate $900.0 million. Capital expenditures during the five year period 1987-1991 are expected to exceed $3.5 billion.

Acquisitions

During 1986 the company made numerous acquisitions for an aggregate cost of $158.5 million. Each of these acquisitions was accounted for using the purchase method of accounting. In the aggregate, the above acquisitions did not have a significant effect on the consolidated results of the company during 1986.

Dividends

Cash dividends paid to common shareholders were $120.2 million in 1986 and $102.7 million in 1985. Dividends on common stock are paid in the months of March, June, September and December of each year. In the second quarter of 1986, effective with the September dividend, the Board of Directors increased the quarterly dividend from $.10 to $.12 per share. Annual dividends paid per common share increased 20% in 1986 to $.44 per share compared to $.36-2/3 per share paid in 1985. In 1986, dividends were $.10 for each of the first two quarters and $.12 for the last two quarters, as compared to $.08-1/3 for the first two quarters and $.10 for the last two quarters of 1985. All dividend per share amounts reflect the September 12, 1986 two-for-one stock split and the June 14, 1985 three-for-one stock split.

The company has paid dividends in each of the past 54 years. During that time, company stock has split on seven different occasions and stock dividends were paid three times.

In connection with the acquisition of Campbell Taggart, 7.5 million shares of convertible redeemable preferred stock were issued. The preferred stock has a dividend rate of $3.60 per share and cash dividends were paid in the months of March, June, September and December of 1986 and 1985.

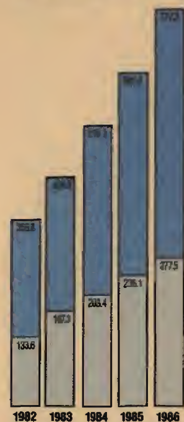
At December 31, 1986, common shareholders of record numbered 53,225 compared with 39,338 at the end of 1985. Preferred shareholders as of December 31, 1986 numbered 1,979 compared with 2,234 at the end of 1985.

Price Range of Common Stock

The company's common stock is listed on the New York Stock Exchange (NYSE) under the symbol "BUD". The table on the next page summarizes the high and low sales prices on the NYSE. All sales prices reflect the September 12, 1986 two-for-one stock split and the June 14, 1985 three-for-one stock split.

Capital Expenditures/ Depreciation and Amortization
(In millions of $)

Capital Expenditures
Depreciation and Amortization



Shareholders Equity/ Long-Term Debt
(In millions of $)

Shareholders Equity
Long-Term Debt

QUARTER	1986 HIGH	1986 LOW	1985 HIGH	1985 LOW
First	24-5/8	20	13-1/2	11-7/8
Second	28-1/4	22-5/8	16-1/8	13-1/8
Third	28-5/8	24-1/8	17-3/8	15-1/8
Fourth	27-1/2	24-3/8	22-7/8	15-7/8

The closing price of the company's common stock at December 31, 1986 and 1985 was 26-1/8 and 21-1/8, respectively.

Common Stock and Other Shareholders Equity

Shareholders equity was $2.31 billion at December 31, 1986, as compared with $2.17 billion at the end of 1985. The increase in 1986 represents the retention of $370.9 million of earnings in the business and the effect of treasury share repurchases. The book value of each common share of stock at December 31, 1986 was $8.61 as compared to $7.84 at December 31, 1985.

In 1986, the return on average shareholder equity was 20.5% as compared with 18.9% in 1985. This return includes the convertible redeemable preferred stock, issued in November 1982, as equity.

The Board of Directors has authorized the company to purchase up to 28.8 million shares of its common stock. During 1986 and 1985, the company purchased 10.2 million and 6.9 million of its common shares for $258.9 million and $109.0 million, respectively. The repurchased shares will be used for the conversion of the preferred stock issued in connection with the Campbell Taggart acquisition.

During 1985, the Board of Directors authorized a program whereby the company distributed a dividend of one preferred stock purchase right for each outstanding share of common stock. The rights may be exercised, under certain conditions, to purchase shares of a new Series B Junior Participating Preferred Stock. This program is explained more fully in Note 9 of the Notes to Consolidated Financial Statements.

Inflation

Inflation has not had a significant impact on the company over the past three years nor is it expected to have a significant impact in the foreseeable future.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Anheuser-Busch Companies, Inc. is responsible for the financial statements and other information included in this annual report. Management has selected those generally accepted accounting principles it considers appropriate to prepare the financial statements and other data contained herein.

The company maintains accounting and reporting systems, supported by an internal accounting control system, which management believes are adequate to provide reasonable assurances that assets are safeguarded against loss from unauthorized use or disposition and financial records are reliable for preparing financial statements. During 1986, the company, in conjunction with Price Waterhouse, its independent accountants, performed a comprehensive review of the adequacy of the company's internal accounting control system. Based on the comprehensive review, it is management's opinion that the company has an effective system of internal accounting control.

The report of Price Waterhouse on its examinations of the consolidated financial statements of the company appears on page 55 of this report. This report states that the examinations have been performed in accordance with generally accepted auditing standards. These standards include an evaluation of the system of internal accounting control for the purpose of establishing the scope of audit testing to enable them to form an opinion on the fairness of presentation of the financial statements.

The Audit Committee of the Board of Directors, which consists of six non-management directors, held five meetings during 1986. The functions of the committee are to recommend to the Board the selection, retention or termination of the company's independent accountants; determine through consultation with management the appropriateness of the scope of the various professional services provided by the independent accountants and consider the possible effect of the performance of such service on the independence of the accountants; review the arrangements and the proposed overall scope of the annual audit with management and the independent accountants; discuss matters of concern to the Audit Committee with the independent accountants and management relating to the annual financial statements and results of the audit; obtain from management, the independent accountants and the Director of Internal Auditing their separate opinions as to the adequacy of the company's system of internal accounting control; review with management and the independent accountants the recommendations made by the accountants with respect to changes in accounting procedures and internal accounting control; receive reports from the Business Practices Committee regarding implementation of and compliance with the company's business ethics policy and discuss with management any concerns the Audit Committee may have with regard to the company's business practices; hold regularly scheduled meetings, separately and jointly, with representatives of management, the independent accountants, and the Director of Internal Auditing, to make inquiries into and discuss their activities; and review the overall activities of the company's internal auditors.

CONSOLIDATED BALANCE SHEET

Anheuser-Busch Companies, Inc., and Subsidiaries

Assets
(In millions)

December 31,	1986	1985
Current Assets:		
Cash and marketable securities (marketable securities of $13.2 in 1986 and $119.9 in 1985 at cost, which approximates market)	$ 69.4	$ 169.6
Accounts and notes receivable, less allowance for doubtful accounts of $3.4 in 1986 and $3.1 in 1985	373.0	301.7
Inventories—		
Raw materials and supplies	294.2	225.4
Work in process	84.6	73.5
Finished goods	49.0	38.8
Total inventories	427.8	337.7
Other current assets	150.4	156.5
Total current assets	1,020.6	965.5
Investments And Other Assets:		
Investments in and advances to unconsolidated subsidiaries	99.7	56.7
Investment properties	16.5	16.5
Deferred charges and other non-current assets	131.6	97.5
Excess of cost over net assets of acquired businesses, net	137.8	99.3
	385.6	270.0
Plant And Equipment:		
Land	102.3	91.8
Buildings	1,725.9	1,578.7
Machinery and equipment	3,804.2	3,381.4
Construction in progress	466.9	288.9
	6,099.3	5,340.8
Less accumulated depreciation	1,671.7	1,454.9
	4,427.6	3,885.9
	$5,833.8	$5,121.4

The accompanying statements should be read in conjunction with the Notes to Consolidated Financial Statements appearing on pages 47-54 of this report.

Liabilities and Shareholders Equity
(In millions)

December 31,	1986	1985
Current Liabilities:		
Short-term debt	$ 34.7	$ —
Accounts payable	491.7	425.3
Accrued salaries, wages and benefits	180.0	177.1
Accrued interest payable	31.0	30.1
Due to customers for returnable containers	34.0	33.1
Accrued taxes, other than income taxes	63.7	56.9
Estimated income taxes	71.8	31.3
Other current liabilities	108.7	84.0
Total current liabilities	1,015.6	837.8
Long-Term Debt	1,126.8	861.3
Deferred Income Taxes	1,090.8	961.7
Convertible Redeemable Preferred Stock (Liquidation Value $297.9)	286.9	287.6
Common Stock And Other Shareholders Equity:		
Preferred stocks		—
Common stock, $1.00 par value, authorized 400,000,000 shares in 1986 and 200,000,000 shares in 1985 and 1984; issued 295,264,924, 146,633,977 and 48,641,869 shares, respectively	295.3	146.6
Capital in excess of par value	6.1	90.4
Retained earnings	2,472.2	2,142.3
Foreign currency translation adjustment	.9	(4.4)
	2,774.5	2,374.9
Less cost of treasury stock (26,399,740, 8,114,453 and 1,564,152 shares in 1986, 1985 and 1984, respectively)	460.8	201.9
	2,313.7	2,173.0
Commitments And Contingencies	—	—
	$5,833.8	$5,121.4

CONSOLIDATED STATEMENT OF INCOME

Anheuser-Busch Companies, Inc., and Subsidiaries
(In millions, except per share data)

Year Ended December 31,	1986	1985	1984
Sales	$8,401.7	$7,683.3	$7,158.2
Less federal and state excise taxes	724.5	683.0	657.0
Net sales	7,677.2	7,000.3	6,501.2
Cost of products sold	4,959.2	4,676.1	4,414.2
Gross profit	2,708.0	2,324.2	2,087.0
Marketing, administrative and research expenses	1,702.9	1,491.9	1,332.3
Operating income	1,005.1	832.3	754.7
Other income and expenses:			
Interest expense	(96.9)	(93.4)	(102.7)
Interest capitalized	33.2	37.2	46.8
Interest income	9.6	21.3	22.8
Other expense, net	(9.8)	(16.9)	(31.8)
Income before income taxes	941.2	780.5	689.8
Provision for income taxes:			
Current	291.2	130.1	118.4
Deferred	132.0	206.7	179.9
	423.2	336.8	298.3
Net Income	$ 518.0	$ 443.7	$ 391.5
Earnings per share	$ 1.69	$ 1.42	$ 1.23

The accompanying statements should be read in conjunction with the Notes to Consolidated Financial Statements appearing on pages 47-54 of this report.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY AND CONVERTIBLE REDEEMABLE PREFERRED STOCK

Anheuser-Busch Companies, Inc., and Subsidiaries

	Shareholders Equity (In millions, except per share data)					
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Foreign Currency Translation Adjustment	Convertible Redeemable Preferred Stock
Balance At December 31, 1983	$ 48.5	$167.2	$1,555.4	$ (.9)	$ (3.7)	$286.0
Net income			391.5			
Cash dividends:						
Common ($.31-1/3 per share)			(89.7)			
Preferred ($3.60 per share)			(27.0)			
Shares issued under stock option plans	.1	6.0				
Accretion of preferred stock			(.9)			.9
Treasury stock acquired				(92.6)		
Foreign currency translation adjustment					(2.9)	
Balance At December 31, 1984	48.6	173.2	1,829.3	(93.5)	(6.6)	286.9
Net income			443.7			
Cash dividends:						
Common ($.36-2/3 per share)			(102.7)			
Preferred ($3.60 per share)			(27.0)			
Shares issued under stock option plans and conversion of preferred stock	.5	14.3				(.3)
Three-for-one stock split	97.5	(97.5)				
Accretion of preferred stock			(1.0)			1.0
Treasury stock acquired				(109.0)		
Treasury stock issued		.4		.6		
Foreign currency translation adjustment					2.2	
Balance At December 31, 1985	146.6	90.4	2,142.3	(201.9)	(4.4)	287.6
Net income			518.0			
Cash dividends:						
Common ($.44 per share)			(120.2)			
Preferred ($3.60 per share)			(26.9)			
Shares issued under stock option plans and conversion of preferred stock	1.3	23.1				(1.7)
Two-for-one stock split	147.4	(107.4)	(40.0)			
Accretion of preferred stock			(1.0)			1.0
Treasury stock acquired				(258.9)		
Foreign currency translation adjustment					5.3	
Balance At December 31, 1986	$295.3	$ 6.1	$2,472.2	$(460.8)	$ .9	$286.9

The accompanying statements should be read in conjunction with the Notes to Consolidated Financial Statements appearing on pages 47-54 of this report.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Anheuser-Busch Companies, Inc., and Subsidiaries
(In millions)

Year Ended December 31,	1986	1985	1984
Source Of Funds			
Net income	$ 518.0	$ 443.7	$ 391.5
Depreciation and amortization	277.5	236.1	203.4
Deferred income taxes	129.1	206.7	181.8
Total funds provided by current operations	924.6	886.5	776.7
Increase in long-term debt	371.2	157.9	7.8
Investment in unconsolidated subsidiaries	(8.8)	(13.8)	14.8
Other, net	39.7	31.8	(2.6)
Total	1,326.7	1,062.4	796.7
Use Of Funds			
Capital expenditures	777.3	601.0	519.2
Dividends paid to stockholders	147.1	129.7	116.7
Decrease in long-term debt	107.6	136.4	133.4
Acquisition of minority interests	—	—	20.6
Acquisition of treasury stock	258.9	109.0	92.6
Business acquisitions	158.5	38.9	—
Increase in investment properties	—	—	9.0
Increase (decrease) in non-cash working capital*	(22.5)	(43.6)	45.0
Total	1,426.9	971.4	936.5
Increase (Decrease) In Cash And Marketable Securities	$ (100.2)	$ 91.0	$ (139.8)

*Non-cash Working Capital			
Increase (decrease) in non-cash current assets:			
Accounts and notes receivable	$ 71.3	$ 26.1	$ (8.0)
Inventories	90.1	21.8	17.1
Other current assets	(6.1)	50.3	9.4
Decrease (increase) in current liabilities:			
Short-term debt	(34.7)	—	—
Accounts payable	(66.4)	(87.1)	(10.4)
Accrued salaries, wages and benefits	(2.9)	(26.8)	(7.8)
Accrued interest payable	(.9)	(3.3)	3.1
Due to customers for returnable containers	(.9)	(1.3)	(.7)
Accrued taxes, other than income taxes	(6.8)	(13.3)	20.7
Estimated income taxes	(40.5)	7.7	9.4
Other current liabilities	(24.7)	(17.7)	12.2
Increase (Decrease) In Non-cash Working Capital	$ (22.5)	$ (43.6)	$ 45.0

The accompanying statements should be read in conjunction with the Notes to Consolidated Financial Statements appearing on pages 47-54 of this report.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Principles and Policies

This summary of significant accounting principles and policies of Anheuser-Busch Companies, Inc. and its subsidiaries is presented to assist the reader in evaluating the company's financial statements included in this report. These principles and policies conform to generally accepted accounting principles and, except for the accounting for pensions as more fully discussed in Note 6, have been consistently followed by the company.

Principles of consolidation

The consolidated financial statements include the company and all its subsidiaries. Certain subsidiaries which are not an integral part of the company's primary operations are included on the equity basis.

Foreign currency translation

Exchange adjustments resulting from foreign currency transactions generally are recognized in income, whereas adjustments resulting from translations of financial statements are reflected as a separate component of shareholders equity.

Excess of cost over net assets of acquired businesses

The excess of the cost over the net assets of acquired businesses is being amortized on a straight-line basis over a period of forty years. Accumulated amortization at December 31, 1986 and 1985 was $10.5 million and $7.2 million, respectively.

Inventories and production costs

Inventories are valued at the lower of cost or market. Cost is determined under the last-in, first-out method for substantially all brewing inventories and under the first-in, first-out method for substantially all food product inventories.

Plant and equipment

Plant and equipment is carried at cost and includes expenditures for new facilities and those which substantially increase the useful lives of existing plant and equipment. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is credited or charged to income.

Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets (buildings 2% to 10% and machinery and equipment 4% to 25%).

Capitalization of interest

Interest relating to the cost of acquiring certain fixed assets is capitalized. This interest is included as part of the cost of the related asset and is amortized over its estimated useful life.

Income taxes

The provision for income taxes is based on elements of income and expense as reported in the Consolidated Statement of Income. The company has elected to utilize certain provisions of federal income tax laws and regulations to reduce current taxes payable.

Deferred income taxes are recognized for the effect of differences between financial and tax reporting. Investment tax credit is included in income when assets are placed in service or when the credit can be claimed under federal income tax laws relating to qualified progress expenditures.

Research and development, advertising, promotional costs and initial plant costs

Research and development, advertising, promotional costs and initial plant costs are charged against income in the year in which these costs are incurred.

Earnings per share

On September 12, 1986, 147.4 million common shares were issued in connection with a two-for-one stock split and on June 14, 1985, 97.5 million common shares were issued in connection with a three-for-one stock split. The aggregate par value of these shares of $244.9 million was transferred from capital in excess of par and retained earnings to common stock. All per share amounts included in this report reflect these stock splits.

Earnings per share of common stock are based on the average number of shares of common stock outstanding during the respective years (306.6 million in 1986, 312.6 million in

1985 and 317.4 million in 1984). The convertible redeemable preferred shares are common stock equivalents; accordingly, these shares are assumed to have been converted into common stock at the date of their issuance and are included in the weighted average shares outstanding in computing earnings per share.

2. Inventory Valuation

Approximately 70% and 75% of total inventories at December 31, 1986 and 1985, respectively, are stated on the last-in, first-out (LIFO) inventory valuation method. Had average-cost (which approximates replacement cost) been used with respect to such items at December 31, 1986 and 1985, total inventories would have been $85.7 million and $98.7 million higher, respectively.

3. Credit Agreements

In July 1986, the company entered into a $100 million multicurrency revolving credit agreement replacing a previous multicurrency revolving credit agreement which expired in March 1986. The agreement permits the company to borrow up to $100 million (or the equivalent in other currencies) on a revolving credit basis over a seven-year period. At the election of the company, interest rates shall be at LIBOR plus 3/8%, at a rate based on certificate of deposit rates plus 1/2% or at the prime rate.

In August 1982, the company entered into a ten-year revolving credit agreement with a group of eleven domestic banks. In December 1983, the agreement was amended to provide for maximum outstanding borrowings of $400.0 million. At the election of the company, interest rates shall be at the prime rate, a rate based on certificate of deposit rates plus 1/2% or at LIBOR plus 3/8% until August 1, 1987, and at scheduled rate increases for periods thereafter.

At December 31, 1986, $25 million was outstanding under the 1982 revolving credit agreement, leaving the company with a remaining unused credit line of $475 million. At December 31, 1985, the company had no outstanding borrowings under these agreements. Fees under these agreements and prior agreements amounted to $1.2 million in 1986 and $1.1 million in 1985 and 1984.

4. Long-Term Debt

In April 1986, the company issued 6% (effective rate 7.5% to 1991) dual currency Swiss Franc/U.S. Dollar Notes due 1994. These bonds were issued for the equivalent of $100.1 million, have a redemption price of $115.9 million in 1994 and are subject to redemption, at the option of the holders or the company, starting at an initial redemption price of $103.9 million. In June 1986, the company redeemed its $100 million 11-1/4% bonds due 1990 at par.

In May 1986, the company filed a registration statement with the Securities and Exchange Commission (SEC) covering up to $200 million of debt securities to be issued from time to time under Rule 415. This was in addition to the $100 million remaining available for issuance under a previous registration. In October 1986, $100 million 8% Notes due October 1, 1996, and in November $150 million 8-5/8% Sinking Fund Debentures due December 1, 2016, were issued under these registrations. Finally, during January 1987 the company issued 75 million, 14% Australian Dollar Notes due 1990. Upon issuance, the company entered into a currency exchange agreement which provided the company with U.S. $49.1 million and created U.S. dollar debt in the amount of $49.1 million at maturity. Additionally, the agreement results in the company incurring a floating interest rate based on the AA 30-day commercial paper index. The Australian Dollar Notes were issued under the aforementioned May 1986 registration.

In May 1985, the company issued $100 million 11-1/8% Notes due 1993. In September 1985, the company issued 8% (effective rate 10.3%) Dual Currency Japanese Yen/U.S. Dollar Notes due 1995. These Notes were issued for the equivalent of $48.9 million, have a redemption price of $55.3 million on their maturity date, and are subject to redemption, at the option of the company, for $55.0 million in 1993. On November 1, 1985, the company redeemed at par its $100 million 9.90% Notes due 1986.

The company has fully hedged its foreign currency exposure for interest payments and note redemption through agreements with various lending institutions for all foreign debt issues described above.

Long-term debt at December 31 consists of the following:

	1986	1985
	(In millions)	
8.0% Notes due October 1, 1996	$ 100.0	$ —
6.0% Dual Currency Swiss Franc/U.S. Dollar Notes due 1991/1994	101.6	—
11-1/8% Notes due 1993	100.0	100.0
8.0% Dual Currency Japanese Yen/U.S. Dollar Notes due 1995	49.7	49.1
15-3/8% Notes due 1991	50.0	50.0
11-1/4% Guaranteed bonds due 1990	—	100.0
Sinking fund debentures	567.5	418.1
Industrial revenue bonds	81.9	73.3
Other long-term debt	76.1	70.8
	$1,126.8	$861.3

The company's sinking fund debentures at December 31 are as follows:

	1986	1985
	(In millions)	
8-5/8% debentures maturing 2016	$150.0	$ —
5.45% debentures maturing 1984 to 1991, less $6.3 in treasury in 1986 and $9.7 in 1985	2.3	2.3
6% debentures maturing 1984 to 1992, less $7.2 in treasury in 1986 and $9.9 in 1985	7.7	7.8
7.95% debentures maturing 1985 to 1999, less $3.3 in treasury in 1986 and $9.5 in 1985	77.3	77.5
9.20% debentures maturing 1986 to 2005, less $8.4 in treasury in 1986 and $15.6 in 1985	134.4	134.4
8.55% debentures maturing 1989 to 2008, less $4.2 in treasury in 1986 and $3.9 in 1985	95.8	96.1
11-7/8% debentures maturing 1993 to 2012	100.0	100.0
	$567.5	$418.1

The aggregate maturities on all long-term debt are $23.1, $21.1, $23.8, $22.5 and $71.2 million, respectively, for each of the years ending December 31, 1987 through 1991.

5. Stock Option Plans

In December 1981, the company adopted an Incentive Stock Option Plan and a Non-Qualified Stock Option Plan for certain officers and key employees. These plans were approved by the shareholders in April 1982. Under the terms of the plans, options may be granted at not less than the fair market value of the shares at the date of grant. The Non-Qualified Stock Option Plan provides that optionees may be granted Stock Appreciation Rights (SARs) in tandem with stock options. The exercise of a SAR cancels the related option and the exercise of an option cancels the related SAR. At December 31, 1986 and 1985 a total of 24,538,096 and 26,567,126 shares, respectively, were reserved for possible issuance under the plans

Presented below is the summary of activity for the plans for the year ended December 31:

	1986	1985
Options outstanding at beginning of the year	15,565,556	10,230,408
Options granted during the year (2,648,600 SARs in 1985; none in 1986)	1,387,536	7,382,060
Options exercised during the year	(2,192,982)	(1,907,952)
Options cancelled during the year	(142,104)	(138,960)
Options outstanding at end of the year	14,618,006	15,565,556
Options exercisable at end of the year	8,512,212	6,876,798
Option price range per share	$6.80-$26.81	$6.80-$20.85

In December 1985, the plans were amended to provide for an increase in shares reserved for issuance under the plans (14.8 million shares), the acceleration of exercisability of the options in the event of change in control of the company and to provide that optionees may be granted Limited Stock Appreciation Rights (LSARs) in tandem with stock options. LSARs become exercisable upon the occurrence, six months following date of grant, of certain events surrounding a change in control of the company or a merger of the company into or with another company and entitle the holder to a cash payment per share granted equivalent to the difference between the share value (under terms of the LSAR) at date of event less the grant price. During 1985 a total of 3,805,274 LSARs were granted. No LSARs were granted in 1986.

6. Pension Plans

The company has pension plans covering substantially all of its employees. Total pension expense for each of the three years ended December 31 is presented below (in millions):

	1986	1985	1984
Single-employer Defined Benefit Plans	$(13.0)	$34.2	$34.1
Multi-employer Plans	43.6	39.6	35.1
Defined Contribution Plans	6.0	4.9	2.7
	$36.6	$78.7	$71.9

Effective January 1, 1986, the company adopted the provisions of Statement of Financial Accounting Standard No. 87, "Employers' Accounting For Pensions," which had the effect of reducing 1986 pension expense by $45.2 million.

Net periodic pension cost for single-employer defined benefit plans for 1986 was comprised of the following (in millions):

		1986
Service cost (benefits earned during the period)		$ 21.1
Interest cost on projected benefit obligation		32.5
Return on assets:		
Actual return	$(87.7)	
Excess of actual over assumed return	35.4	
Assumed return	$(52.3)	(52.3)
Amortization of the excess of market value of plan assets over projected benefit obligation at January 1, 1986		(14.3)
Net periodic pension cost/(benefit)		$(13.0)

The assumed discount rate and the weighted-average rate of compensation increase used to measure the projected benefit obligation, and the expected long-term rate of return on plan assets were 9.0%, 6.5% and 9.0%, respectively.

The following table sets forth the funded status of all company single-employer defined benefit plans (underfunded plans are not material) (in millions):

	December 31, 1986
Accumulated benefit obligation:	
Vested benefits	$(287.1)
Nonvested benefits	(32.2)
Accumulated benefit obligation	(319.3)
Effect of projected compensation increases	(79.4)
Projected benefit obligation	(398.7)
Plan assets at fair market value—primarily corporate equity securities and publicly traded bonds	666.1
Plan assets in excess of projected benefit obligation	$ 267.4
Plan assets in excess of projected benefit obligation consists of the following components:	
Unamortized excess of market value of plan assets over projected benefit obligation at January 1, 1986 being amortized over 15 years	$ 215.1
Excess of actual over assumed return	35.4
Prepaid pension asset	16.9
	$ 267.4

Contributions to multi-employer plans in which the company and its subsidiaries participate are determined in accordance with the provisions of negotiated labor contracts and are based on employee-hours worked.

At January 1, 1985 the actuarial present value of accumulated plan benefits was $297.2 million (of which $31.3 million was nonvested), compared with net assets available for benefits of $498.7 million. The assumed average rate of return used in determining the actuarial present value of benefits was 8.5%.

7. Income Taxes

The provision for income taxes includes the following for each of the three years ended December 31 (in millions):

	1986	1985	1984
Current Tax Provision			
Federal:			
Provision	$305.7	$155.0	$136.2
Investment tax credit	(43.5)	(43.6)	(35.1)
	262.2	111.4	101.1
State and foreign	29.0	18.7	17.3
	291.2	130.1	118.4
Deferred Tax Provision:			
Federal	125.0	196.3	171.0
State and foreign	7.0	10.4	8.9
	132.0	206.7	179.9
	$423.2	$336.8	$298.3

The deferred tax provision results from timing differences in the recognition of income and expense for tax and financial reporting purposes. The primary differences are the calculation of depreciation for tax purposes using accelerated methods and shorter lives and expensing for tax purposes interest cost capitalized for book purposes (tax effect of $160.0 million in 1986, $193.0 million in 1985 and $178.5 million in 1984). During 1985, the company also expensed for tax purposes certain prepaid employee group benefits with a tax effect of $22.3 million.

The company's effective tax rate was 45.0% in 1986 and 43.2% in 1985 and 1984. A reconciliation between the statutory rate and the effective rate is presented below:

	1986	1985	1984
Statutory rate	46.0%	46.0%	46.0%
Investment tax credit	(4.6)	(5.6)	(5.1)
State income taxes, net of federal benefit	1.8	1.9	1.9
Other	1.8	.9	.4
Effective tax rate	45.0%	43.2%	43.2%

The Tax Reform Act of 1986 repeals the investment tax credit retroactive to January 1, 1986 except for certain transitional property. The 1986 provision for income taxes reflects the benefit of $43.5 million of investment tax credit on transitional capital projects.

8. Redeemable Preferred Stock

In connection with the acquisition of Campbell Taggart, the company authorized 7,502,000 shares and issued 7,500,766 shares of convertible redeemable preferred stock, par value $1. The convertible redeemable preferred stock has a redemption value of $40, requires dividend payments at a rate of $3.60 per year, is non-callable for five years from the date of acquisition of Campbell Taggart and is subject to mandatory redemption at the end of fifteen years. The preferred shares are also convertible into 3.87 shares of the company's common stock and have voting rights in this ratio. The difference between the redemption value and the carrying value is being amortized over fifteen years.

9. Preferred and Common Stock

At December 31, 1986 and 1985, 28,498,000 shares of $1.00 par value preferred stock were authorized and unissued.

On December 18, 1985, the Board of Directors adopted a Stockholder Rights Plan pursuant to which the Board declared a dividend of one preferred stock purchase right on each outstanding share of common stock of the company. The dividend became effective on December 27, 1985, payable to stockholders of record on that date and thereafter. The rights have subsequently been amended in certain respects, and the description below reflects the terms of the rights as amended. After the rights become exercisable and until such time as the rights expire or are redeemed, they will entitle the holder to purchase one one-hundredth of a share of a new Series B Junior Participating Preferred Stock, par value $1.00 per share (4,000,000 shares authorized and unissued at December 31, 1986 and 1985), at a purchase price of $50 per one one-hundredth of a share. The rights will become exercisable on the earlier to occur of (i) the tenth day following a public announcement that a person or group (an "Acquiring Person") has acquired 20% or more of the common stock of the company or (ii) the tenth business day following the commencement of a tender offer or exchange offer by a third party which, upon consummation, would result in such party's control of 30% or more of the common stock of the company.

If, at any time after the rights have become non-redeemable, the company is the surviving corporation in a merger with an Acquiring Person and its common stock is not changed or exchanged, or an Acquiring Person becomes the beneficial owner of more than 30% of the then outstanding shares of common stock, each right will entitle the holder, other than the Acquiring Person, to purchase that number of shares of common stock of the company that has a market value of twice the exercise price of the right.

If, at any time after the rights have become non-redeemable, the company is acquired in a merger or other business combination transaction or 50% or more of its assets or earning power is sold, each right will entitle its holder to purchase that number of shares of common stock of the acquiring company which has a market value of twice the exercise price of the right.

The rights, which do not have voting rights, expire on December 18, 1995, and may be redeemed by the company at a price of 2-1/2 cents per right at any time prior to expiration or the date on which the company's Board of Directors permits the rights to become non-redeemable (subject to reinstatement in certain circumstances).

In March 1984, the Board of Directors amended a 1982 resolution to authorize the company to purchase up to 28.8 million shares of its common stock. The shares will be used for the conversion to common stock of preferred stock issued in connection with the acquisition of Campbell Taggart. In 1986 and 1985, 10,170,834 and 6,896,800 shares were purchased for $258.9 million and $109.0 million, respectively.

10. Commitments and Contingencies

In connection with the plant expansion and improvement program, the company has commitments for capital expenditures of approximately $439.4 million at December 31, 1986.

Obligations under capital and operating leases are not material.

The company and certain of its subsidiaries are involved in certain claims and legal proceedings in which monetary damages and other relief are sought. The company is vigorously contesting these claims. However, resolution of these claims is not expected to occur quickly and their ultimate outcome cannot presently be predicted. In any event, it is the opinion of management that any liability of the company or its subsidiaries for claims or proceedings will not materially affect its financial position.

11. Business Segments

The company has identified its principal business segments as beer and beer-related, food products and diversified operations. The beer and beer-related segment produces and sells the company's beer products. Included in this segment are the company's raw material acquisition, malting, can manufacturing and recycling operations.

The food products segment consists of the company's food and food-related operations which include the company's baking, yeast and snack food subsidiaries.

Diversified operations consist of the company's entertainment, communications, transportation and real estate operations.

Sales between segments, export sales and non-United States sales are not material. The company's equity in earnings of unconsolidated subsidiaries has been included in other income and expense. No single customer accounted for more than 10% of sales.

Summarized below is the company's business segment information for 1986, 1985 and 1984 (in millions). Intra-segment sales have been eliminated from each segment's reported net sales.

1986:	**Beer and Beer-Related**	**Food Products**	**Diversified Operations**	**Eliminations**	**Consolidated**
Net sales	$5,898.2	$1,552.7	$247.3	$ (21.0)	$7,677.2
Operating income*	945.8	56.6	2.7		1,005.1
Depreciation and amortization expense	192.3	60.5	24.7		277.5
Capital expenditures	544.8	164.3	68.2		777.3
Identifiable assets	4,083.8	1,114.1	178.0		5,375.9
Corporate assets**					457.9
Total assets					5,833.8

1985:	**Beer and Beer-Related**	**Food Products**	**Diversified Operations**	**Eliminations**	**Consolidated**
Net sales	$5,412.6	$1,416.4	$189.6	$ (18.3)	$7,000.3
Operating income*	797.0	28.5	6.8		832.3
Depreciation and amortization expense	161.7	53.2	21.2		236.1
Capital expenditures	461.2	103.7	36.1		601.0
Identifiable assets	3,515.6	935.9	174.6		4,626.1
Corporate assets**					495.3
Total assets					5,121.4

1984:	**Beer and Beer-Related**	**Food Products**	**Diversified Operations**	**Eliminations**	**Consolidated**
Net sales	$5,001.7	$1,343.9	$169.5	$ (13.9)	$6,501.2
Operating income*	728.2	16.5	10.0		754.7
Depreciation and amortization expense	141.1	42.3	20.0		203.4
Capital expenditures	393.1	106.7	19.4		519.2
Identifiable assets	3,214.7	811.8	128.0		4,154.5
Corporate assets**					370.2
Total assets					4,524.7

*Operating income excludes other expense, net which is not allocated among segments. For 1986, 1985 and 1984 other expense, net of $63.9, $51.8 and $64.9 million, respectively, includes net interest expense, minority interests, other income and expense, and equity in earnings of unconsolidated subsidiaries.

** Corporate assets principally include cash, marketable securities, investment in equity subsidiaries, excess of cost over net assets of acquired businesses and certain fixed assets.

12. Additional Income Statement Information

The following amounts were charged to costs and expenses (in millions):

	1986	1985	1984
Maintenance	$298.6	$269.4	$253.5
Depreciation and amortization	$277.5	$236.1	$203.4
Taxes, other than income taxes:			
Payroll	$109.0	$ 96.2	$ 90.3
Real and personal property	41.9	39.3	37.6
Franchise and other	24.9	19.1	16.2
Total	$175.8	$154.6	$144.1
Advertising costs	$612.3	$522.9	$480.2

13. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1986 and 1985 (in millions, except per share data) appear below:

	Net sales		Gross profit		Net Income		Earnings per share	
	1986	1985	1986	1985	1986	1985	1986	1985
First quarter	$1,749.0	$1,642.5	$ 589.5	$ 524.3	$108.0	$ 90.5	$ .35	$ .29
Second quarter	1,978.8	1,828.0	724.5	620.4	152.4	130.3	.49	.41
Third quarter	2,022.0	1,831.9	734.8	623.9	163.9	143.6	.54	.46
Fourth quarter	1,927.4	1,697.9	659.2	555.6	93.7	79.3	.31	.26
Total year	$7,677.2	$7,000.3	$2,708.0	$2,324.2	$518.0	$443.7	$ 1.69	$ 1.42

The previously reported gross profit, net income and earnings per share for the first three quarters of 1986 have been retroactively restated to reflect the company's adoption of Statement of Financial Accounting Standard No. 87 (FAS 87), "Employers' Accounting for Pensions." For accounting purposes, the financial effect of FAS 87 was spread equally through all four quarters. The impact of FAS 87 increased previously reported 1986 gross profit, net income and earnings per share for each quarter of 1986 by $5.6 million, $5.9 million and $.02, respectively.

REPORT OF INDEPENDENT ACCOUNTANTS

One Centerre Plaza
St. Louis, MO 63101

Telephone 314 425 0500

Price Waterhouse

February 9, 1987

**To the Shareholders and
Board of Directors of
Anheuser-Busch Companies, Inc.**

In our opinion, the accompanying Consolidated Balance Sheet and the related Consolidated Statements of Income, Changes in Shareholders Equity and Convertible Redeemable Preferred Stock, and Changes in Financial Position present fairly the financial position of Anheuser-Busch Companies, Inc. and its subsidiaries at December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

FINANCIAL SUMMARY—OPERATIONS

Anheuser-Busch Companies, Inc., and Subsidiaries
(In millions, except per share data)

	1986	1985	1984
Consolidated Summary Of Operations			
Barrels sold	72.3	68.0	64.0
Sales	$8,401.7	$7,683.3	$7,158.2
Federal and state excise taxes	724.5	683.0	657.0
Net sales	7,677.2	7,000.3	6,501.2
Cost of products sold	4,969.2	4,676.1	4,414.2
Gross profit	2,708.0	2,324.2	2,087.0
Marketing, administrative and research expenses	1,702.9	1,491.9	1,332.3
Operating income	1,005.1	832.3	754.7
Interest expense	(96.9)	(93.4)	(102.7)
Interest capitalized	33.2	37.2	46.8
Interest income	9.6	21.3	22.8
Other income (expense), net	(9.8)	(16.9)	(31.8)
Loss on partial closing of Los Angeles Busch Gardens	—	—	—
Gain on sale of Lafayette plant	—	—	—
Income before income taxes	941.2	780.5	689.8
Income taxes	423.2	336.8	298.3
Income before cumulative effect of an accounting change	518.0	443.7	391.5
Cumulative effect of change to the flow-through method of accounting for the investment tax credit (1)	—	—	—
Net income	518.0	443.7	391.5
Per share—Primary			
Income before cumulative effect of an accounting change	1.69	1.42	1.23
Cumulative effect of change to the flow-through method of accounting for the investment tax credit (1)	—	—	—
Net income	1.69	1.42	1.23
Per share—Fully diluted	1.69	1.42	1.23
Cash dividends paid			
Common stock	120.2	102.7	89.7
Per share	.44	.36⅔	.31⅓
Preferred stock	26.9	27.0	27.0
Per share	3.60	3.60	3.60
Average number of common shares	306.6	312.6	317.4

Notes To Financial Summary—Operations

Note: All per share information and average number of common shares data reflect the September 12, 1986 two-for-one stock split and the June 14, 1985 three-for-one stock split. All amounts reflect the acquisition of Campbell Taggart, Inc. as of November 2, 1982. 1986 results reflect the adoption of Financial Accounting Standard No. 87 (FAS 87), Employers' Accounting For Pensions. The financial effect of FAS 87 adoption was to increase 1986 pre-tax income $45 million, net income $23 million and earnings per share $.08.

(1) Effective January 1, 1979, the company adopted the flow-through method of accounting for investment tax credits. In prior years, the company followed the practice of adding investment tax credit to income over the productive lives of the assets generating such credit, rather than in the year in which the assets were placed in service. Accordingly, such benefits deferred in prior years are being added to income in the current year.

(2) Net income and net income per share include a nonrecurring gain on the sale of the corn refining plant in Lafayette, Indiana. This nonrecurring gain increased net income $13.3 million, primary earnings per share $.05 and fully diluted earnings per share $.04.

	1983	1982	1981	1980	1979	1978	1977	1976
	60.5	59.1	54.5	50.2	46.2	41.6	36.6	29.1
	$6,658.5	$5,185.7	$4,409.6	$3,822.4	$3,263.7	$2,701.6	$2,231.2	$1,753.0
	624.3	609.1	562.4	527.0	487.8	442.0	393.2	311.9
	6,034.2	4,576.6	3,847.2	3,295.4	2,775.9	2,259.6	1,838.0	1,441.1
	4,113.2	3,331.7	2,975.5	2,553.9	2,172.1	1,762.4	1,462.8	1,175.0
	1,921.0	1,244.9	871.7	741.5	603.8	497.2	375.2	266.1
	1,220.2	752.0	515.0	428.6	356.7	274.9	190.4	137.8
	700.8	492.9	356.7	312.9	247.1	222.3	184.8	128.3
	(111.4)	(89.2)	(89.6)	(75.6)	(40.3)	(28.9)	(26.7)	(26.9)
	32.9	41.2	64.1	41.7	—	—	—	—
	12.5	17.0	6.2	2.4	8.4	11.7	7.7	10.3
	(18.8)	(8.1)	(12.2)	(9.9)	5.4	.7	4.1	1.7
	—	—	—	—	—	—	—	(10.0)
	—	20.4	—	—	—	—	—	—
	616.0	474.2	325.2	271.5	220.6	205.8	169.9	103.4
	268.0	186.9	107.8	99.7	76.3	94.8	78.0	48.0
	348.0	287.3	217.4	171.8	144.3	111.0	91.9	55.4
	—	—	—	—	52.1	—	—	—
	348.0	287.3 (2)	217.4	171.8	196.4	111.0	91.9	55.4
	1.08	1.00	.80	.64	.54	.41	.34	.21
	—	—	—	—	.19	—	—	—
	1.08	1.00 (2)	.80	.64	.73	.41	.34	.21
	1.08	.98 (2)	.77	.64	.73	.41	.34	.21
	78.3	65.8	51.2	44.8	40.7	37.0	32.0	30.6
	.27	.23	.18⅘	.16½	.15	.13⅔	.11⅘	.11⅓
	29.7	—	—	—	—	—	—	—
	3.60	—	—	—	—	—	—	—
	321.0	288.6	272.4	271.2	271.2	270.6	270.6	270.6

FINANCIAL SUMMARY—BALANCE SHEET AND OTHER INFORMATION

Anheuser-Busch Companies, Inc., and Subsidiaries
(In millions, except per share and statistical data)

	1986	1985	1984
Balance Sheet Information			
Working capital	$ 5.0	$ 127.7	$ 80.3
Current ratio	1.0	1.2	1.1
Plant and equipment, net	4,427.6	3,885.9	3,515.0
Long-term debt	1,126.8	861.3	835.8
Total debt to total debt plus equity	30.9% (1)	25.9% (1)	27.2% (1)
Deferred income taxes	1,090.8	961.7	755.0
Convertible redeemable preferred stock	286.9	287.6	286.9
Common stock and other shareholders equity	2,313.7	2,173.0	1,951.0
Return on shareholders equity	20.5%	18.9%	18.2%
Total assets	5,833.8	5,121.4	4,524.7
Other Information			
Capital expenditures	777.3	601.0	519.2
Depreciation and amortization	277.5	236.1	203.4
Total payroll cost	1,656.4	1,547.7	1,427.5
Effective tax rate	45.0%	43.2%	43.2%
Price/earnings ratio	15.5	14.9	9.8
Percent of pre-tax profit on gross sales	11.2%	10.2%	9.6%
Market price range of common stock (high/low)	28¾-20	22⅞-11⅞	12⅜-8⅞
Pro Forma Information Assuming Retroactive Application Of The Flow-Through Method Of Accounting For The Investment Tax Credit (3):			
Net income (4)	518.0	443.7	391.5
Net income per share (4):			
Primary	1.69	1.42	1.23
Fully diluted	1.69	1.42	1.23
Common stock and other shareholders equity	2,313.7	2,173.0	1,951.0
Return on shareholders equity	20.5%	18.9%	18.2%
Book value per share	8.61	7.84	6.91
Effective tax rate	45.0%	43.2%	43.2%

Notes To Financial Summary— Balance Sheet And Other Information

Note: All per share information reflects the September 12, 1986 two-for-one stock split and the June 14, 1985 three-for-one stock split. 1986 results reflect the adoption of Financial Accounting Standard No. 87, Employers' Accounting For Pensions. The financial effect of FAS 87 adoption was to increase 1986 earnings per share $.08. All amounts reflect the acquisition of Campbell Taggart, Inc. as of November 2, 1982.

(1) This percentage has been calculated by including convertible redeemable preferred stock as part of equity because it is convertible into common stock and is trading primarily on its equity characteristics.

(2) This percentage has been adjusted to reflect the change in the method of accounting for the investment tax credit in 1979, but excludes the cumulative effect.

(3) Effective January 1, 1979, the company adopted the flow-through method of accounting for the investment tax credit. In prior years, the company followed the practice of adding investment tax credit to income over the productive lives of the assets generating such credit, rather than in the year in which the assets were placed in service. Accordingly, such benefits deferred in prior years are being added to income in the current year.

(4) Includes the capitalization of interest effective January 1, 1980 that relates to the capital cost of acquiring certain fixed assets.

1983	1982	1981	1980	1979	1978	1977	1976
$ 175.1	$ 45.8	$ 45.9	$ 26.3	$ 88.1	$ 223.7	$ 175.4	$ 182.1
1.2	1.1	1.1	1.1	1.3	1.8	1.8	2.0
3,204.2	2,988.9	2,257.6	1,947.4	1,461.8	1,109.2	952.0	857.1
961.4	969.0	817.3	743.8	507.9	427.3	337.5	340.7
31.9% (1)	35.4% (1)	42.4%	43.4%	36.0%	36.4%	33.4%	35.8%
573.2	455.1	357.7	261.6	193.8	146.9	119.1	93.0
286.0	285.0	—	—	—	—	—	—
1,766.5	1,526.6	1,206.8	1,031.4	904.3	747.9	673.9	611.9
18.0%	19.9%	19.3%	17.8%	16.9% (2)	15.6%	14.3%	9.2%
4,330.2	3,902.8	2,875.2	2,449.7	1,926.0	1,648.0	1,403.8	1,268.1
428.0	355.8	421.3	590.0	432.3	228.7	156.7	198.7
187.3	133.6	108.7	99.4	75.4	66.0	61.2	53.1
1,350.8	853.3	686.7	594.1	529.1	421.8	338.9	271.4
43.5%	39.4%	33.1%	36.7%	34.6%	46.0%	45.9%	46.4%
9.6	11.0	8.9	7.3	7.1	9.8	9.8	18.8
9.3%	9.1%	7.4%	7.1%	6.8%	7.6%	7.6%	5.9%
12⅞-9¾	11⅞-6½	7⅜-4⅝	5¼-3½	4½-3¼	4⅝-2⅞	4¼-3⅛	6⅜-3½
348.0	287.3	217.4	171.8	144.3	121.9	98.3	75.5
1.08	1.00	.80	.64	.54	.45	.37	.28
1.08	.98	.77	.64	.54	.45	.37	.28
1,766.5	1,526.6	1,206.8	1,031.4	904.3	800.1	715.1	646.8
18.0%	19.9%	19.3%	17.8%	16.9%	16.1%	14.4%	12.1%
6.09	5.27	4.43	3.81	3.33	2.96	2.64	2.39
43.5%	39.4%	33.1%	36.7%	34.6%	40.8%	42.1%	27.0%

INVESTOR INFORMATION

The Corporation

Anheuser-Busch Companies, Inc. is a diversified corporation whose subsidiaries include the world's largest brewing organization and the country's second largest producer of fresh baked goods. Other subsidiaries operate in the fields of container manufacturing and recycling, malt and rice production, international beer marketing, non-beer beverages, snack foods, baker's yeast, family entertainment, real estate development, major league baseball, stadium ownership, creative services, railcar repair and transportation services.

Trademarks

Trademarks of the corporation and its subsidiaries include: Anheuser-Busch, the A & Eagle Design, Budweiser, Bud, Bud Light, King of Beers, Michelob, Michelob Light, Michelob Classic Dark, Mich, Busch, Natural Light, LA, King Cobra, Busch Gardens, The Dark Continent, The Old Country, Adventure Island, Kingsmill, Cardinals, Eagle (for snacks), Honey Roast, Rainbo, Colonial, Earth Grains and El Charrito.

Annual Meeting

The annual meeting of shareholders will be held on Wednesday, April 22, 1987, in St. Louis, Mo. A formal notice of the meeting together with a proxy statement will be mailed to shareholders in mid-March 1987.

Additional Information

A copy of the company's annual report to the Securities and Exchange Commission (Form 10-K) is available to shareholders without charge upon written request to John L. Hayward, Vice President and Secretary, Anheuser-Busch Companies, Inc., One Busch Place, St. Louis, Mo. 63118.

Copies of the corporation's "Fact Book," a general information brochure, may be obtained by writing Corporate Communications Department, Anheuser-Busch Companies, Inc., One Busch Place, St. Louis, Mo. 63118.

For information on Exploration Cruise Lines, contact your travel agent or call Exploration Cruise Lines at 1-800-426-0600. In Seattle, call 624-8551.

Common Stock

Anheuser-Busch Companies, Inc. common stock is listed and traded on the New York Stock Exchange and the London, Frankfurt, Paris, Zurich, Geneva and Basle Stock Exchanges. It is also traded on the Boston, Midwest, Cincinnati, Pacific and Philadelphia Stock Exchanges and the over-the-counter market. Options in the company's common stock are traded on the Philadelphia Stock Exchange. The stock is quoted as "Anheus" in stock table listings in daily newspapers in the U.S.; the abbreviated ticker symbol is "BUD."

Preferred Stock

Anheuser-Busch Companies, Inc. preferred stock is listed and traded on the New York Stock Exchange. The stock is quoted as "Anheu pf" in stock table listings in daily newspapers; the abbreviated ticker symbol is "BUD pfA."

Dividends

Dividends on both common and preferred stock are normally paid in the months of March, June, September and December.

Dividend Reinvestment

The company's Dividend Reinvestment Plan allows shareholders to reinvest dividends in Anheuser-Busch Companies, Inc. common stock automatically, regularly and conveniently—without service charges or brokerage fees. In addition, participating shareholders may supplement the amount invested with voluntary cash investments on the same cost-free basis. Plan participation is voluntary and shareholders may join or withdraw at any time.

Full details concerning the plan are available by writing to Morgan Guaranty Trust Company of New York, Dividend Reinvestment Plan, P.O. Box 3506, New York, New York 10008. Be certain to include a reference to Anheuser-Busch Companies, Inc.

Transfer Agent— Common Stock and Preferred Stock	Centerre Trust Company of St. Louis 510 Locust Street St. Louis, Missouri 63101 (314) 231-9300
Registrars— Common Stock and Preferred Stock	Mercantile Trust Company National Association 721 Locust Street St. Louis, Missouri 63101 Centerre Trust Company of St. Louis 510 Locust Street St. Louis, Missouri 63101
Dividend Disbursing Agent	Centerre Trust Company of St. Louis 510 Locust Street St. Louis, Missouri 63101 (314) 231-9300
Trustees— Debentures/Notes	5.45%, 6.00%, 8-5/8% and 11-7/8% debentures and 8.00% notes: Chemical Bank 20 Pine Street New York, New York 10015 7.95%, 8.55% and 9.20% debentures: Morgan Guaranty Trust Company of New York 30 West Broadway New York, New York 10015 15-3/8% notes: InterFirst Bank Dallas, N.A. 1601 Elm Street Dallas, Texas 75283
Fiscal Agents—Notes	11-1/8% notes: Manufacturers Hanover Trust Company 600 Fifth Avenue New York, New York 10020 8% dual-currency Japanese yen/U.S. dollar notes: The Industrial Bank of Japan, Limited 3-3 Marunouchi 1-Chome Chiyoda-ku Tokyo 100, Japan
Independent Accountants	Price Waterhouse One Centerre Plaza St. Louis, Missouri 63101
Corporate Office	One Busch Place St. Louis, Missouri 63118 (314) 577-2000

ANHEUSER-BUSCH COMPANIES, INC.

Policy Committee

August A. Busch III*
Chairman of the Board and President

Dennis P. Long*
Vice President and Group Executive

Jerry E. Ritter*
Vice President and Group Executive

Barry H. Beracha
Vice President and Group Executive

Patrick T. Stokes
Vice President and Group Executive

John H. Purnell
Senior Vice President–Corporate Planning and Development

W. Randolph Baker
Vice President and Group Executive

Stephen K. Lambright
Vice President and Group Executive

Stuart F. Meyer
Vice President–Corporate Human Resources

Raymond E. Goff
Vice President and Group Executive

*Member of the Corporate Office

Other Officers

John L. Hayward
Vice President and Secretary

Donald S. McDonald
Vice President–Senior Counsel, Industry and Government Affairs

Thomas A. Aldrich
Vice President and Corporate Representative

Aloys H. Litteken
Vice President–Corporate Engineering

Wayman F. Smith III
Vice President–Corporate Affairs

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Vice President–Corporate Financial Planning

Walter A. Suhre, Jr.
Vice President and General Counsel

Osmond Conrad
Vice President and Controller

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Vice President–Materials Acquisition

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Vice President–Corporate Relations

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Vice President–Project Engineering and Design

Lee J. Waltemade
Vice President–Corporate Labor Relations

Gerald C. Thayer
Vice President and Treasurer

Michael J. LaMonica
Senior Vice President–Industry Affairs

Kenn A. Reynolds
Vice President—Corporate Research and Development

Albert R. Wunderlich
Tax Controller

JoBeth Brown
Assistant Secretary

Knut C. Heise
Assistant Secretary

Richard A. Schwartz
Assistant Secretary

Richard N. Hill
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